EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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ARAFAT
Grasping the olive branch and the gun
Page 3

World News

Bush to meet Middle East leaders in peace talks

President George Bush is to meet the leaders of Egypt, Israel and Jordan in Washington over the next six weeks, when he will explore peace prospects following the change in US relations with the PLO and internal divisions in Israel. Page 3.

Brazilian air crash
At least 18 people were killed when a Boeing 707 crashed into an apartment building near Sao Paulo airport.

Chinese austerity
Chinese Government said it would introduce new taxes on the country's thriving private sector to encourage austerity. Page 24

Channon defensive
Paul Channon, UK Transport Secretary, strongly defended his handling of aviation security before and after last December's bombing of a Pan American aircraft over Lockerbie in Scotland. Page 14

Mexico court u-turn
Judge Juan Silva Meza overturned a lower court ruling that absolved Joaquin Hernandez Galicia, former head of Mexico's powerful oil workers' union, for the murder of a union rival, officials said.

HK immigration
Britain has been urged to change its mind over its immigration rules which will bar most of Hong Kong's 5.5m citizens from the right to reside in Britain. Page 3

UK n-waste dump
Nirex, Nuclear Industry Radioactive Waste Executive, said Britain's nuclear waste dump could be sited at Sellafield, Cumbria or Dounreay, Caithness, Scotland. Page 12

Papua clampdown
Papua New Guinea Government ordered troops to the easternmost island of Bougainville in the Indian Ocean following civil violence. Page 4.

SA to free detainees
South African Government said it had already ordered the release of three of four political detainees who took refuge in the West German embassy in Pretoria. Page 4

Ulster mole claim
Northern Ireland minister Mr Tom King issued a statement on the killing of two senior Northern Ireland policemen following speculation that a "mole" told guerrillas officers' travel plans. Page 14

Beirut violence
Lebanese Moslem forces traded artillery and rocket fire with Christian gunmen after virtually cutting off Christian territory. Page 3

Trident explosion
Unarmed Trident-2 missile exploded in flight after it was fired from a submerged US submarine off Cape Canaveral.

Afghan convoys
Afghan troops have cleared the road linking Kabul to Jalalabad, enabling convoys of food and ammunition to reach the besieged city.

Bangladesh strike
Bangladesh suffered a general strike in protest against the controversial novel The Satanic Verses by British author Salman Rushdie.

Business Summary

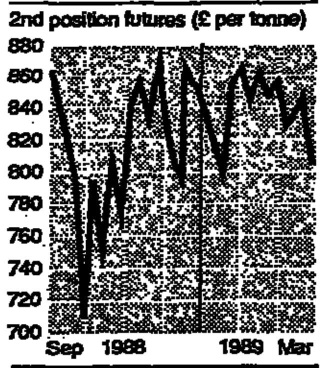
EC rejects US charges over MBB aid package

The European Community rejected US charges that a West German aid package for Messerschmitt-Bölkow-Blohm and its Airbus subsidiary would break Gatt rules, following announcement of Airbus restructuring. Page 24. US-EC fight, Page 2

HARLAND and Wolff, state-owned Belfast shipbuilder, is expected to agree a buy-out with the UK Government. Page 24

COCOA prices fell sharply on the London Futures and Options Exchange (Fox) yesterday following reports that

Cocoa
2nd position futures (£ per tonne)



Sucre et Denrees, the French trade house which has bought a large amount of Ivory Coast cocoa, had started selling.

SAINSBURY, UK supermarkets group, is to receive a cash injection of $154m following the sale of 20 stores to British Land. Page 18

NIGERIA is expected to endorse a 20-year rescheduling of its $5.2bn debt to commercial banks. Page 4

DE BEERS' Central Selling Organisation for rough (uncut) diamonds announced a second big price rise in under 12 months. Page 42

MEXICO *has raised serious objections about the value of debt-equity swaps as a mechanism to achieve significant debt reduction.* Page 24

GRAND METROPOLITAN and United Distillers, UK exporters of Whisky, have agreed to cut prices of their brands in Japan. Page 8

KORDA and Company, a business and technology consultancy group, has established a $8.6m seed capital fund to invest in technology-based start-up companies. Page 12

ZENITH, the flagship company of Mr Ashok Birla, the Indian industrialist, has trebled profits to $4.48m. Page 27

JARDINE Strategic Holdings, which controls major investments of the Jardine Matheson group, announced profits of $112m, an increase of 67 per cent over 1987. Page 27

BANQUE INDOSUEZ, principal banking subsidiary of the Suez investment group, reported a 14 per cent increase in net profits in 1988 to $158m. Page 28

DELORS *Committee of central bank governors and outside experts is studying possible steps towards economic and monetary union in the EC.* Page 2

MALAYSIA Mining Corporation, the country's biggest tin mining group, has reported a 41 per cent increase in pretax profit to $26.2m. Page 27

MINORCO, the South African-controlled company bidding $5.5bn for Consolidated Goldfields of the UK, will sell by tender the 49 per cent-owned Australian affiliate, Renison Goldfields, if its takeover succeeds. Page 27

THE EUROPEAN *Commission* is opening an inquiry into alleged unfair underpricing of denim cloth imported from Turkey, Indonesia, Hong Kong *and Macao. Page 8*

Latvia tastes political campaigning Western-style

THE OFFICES of the Latvian Popular Front in Riga, tucked away in the old quarter in a decaying 18th century town house, is the nearest thing to a Western political party office I have seen in the Soviet Union, writes **Quentin Peel**.

Posters are tacked on the walls, a constant stream of enthusiasts come in and out with requests for literature, or to run errands, and the handful of full-time officials attempt to answer the phones, give press interviews and hand out leaflets all at the same time.

From an improvised flagpole on the second floor flies the red-and-white striped Latvian national flag.

The contrast to the traditional Communist party offices could scarcely be greater. These are usually in the most imposing building in town, with long echoing corridors and well-padded gentlemen tucked behind shiny desks distinctly discouraging the casual visitor.

Instead of posters, the portraits of Lenin and Gorbachev are the only decoration.

The Latvian Popular Front, of course, is not a political party. It could not be, for there is no multi-party system in the Soviet Union. But the little Baltic republic boasts the nearest thing to a multi-party race to be seen in the current election campaign.

The Popular Front for Perestroika, established in a rush of thinly-disguised nationalist emotion last summer, will publicly endorse 36 candidates for the 40 seats in the republic on Friday, and confidently expects to win most of them.

Some of the candidates are members of the Latvian Communist Party: some are not. The race is really between the conservative old guard of the Communist party, backed by the Russian-speaking inhabitants of the republic, and an alliance of party reformers, social democrats, and outright advocates of Latvian independence, united under the nationalist banner.

Not only that. Latvia could very well be the one place in the whole Soviet Union where a party leader loses his seat. Mr Jan Vagris, the first secretary, is facing an extraordinary challenge from an outright advocate of Latvian independence, Mr Juris Dobelis. And Mr Dobelis is going to get the Popular Front endorsement, not Mr Vagris.

Tension in the city is palpable. Ten days ago, the Popular Front held a rally to denounce efforts by the Communist party leadership to muzzle the Latvian press and television, staunch supporters of the movement. An estimated 250,000 people turned up in the biggest demonstration of nationalist support yet seen in the republic.

At the weekend, the Inter-Front, a counter organisation of Russian-speakers, held a rival rally to condemn moves to make Latvian the official

Continued on Page 24

British brewers may be forced to sell more than 20,000 pubs

By Lisa Wood in London

MORE than a quarter of Britain's 80,000 pubs might have to be sold over the next three years under Monopolies and Mergers Commission (MMC) recommendations published yesterday.

In a series of recommendations which would revolutionise the brewing industry, the MMC said no brewer should own more than 2,000 pubs and licensed restaurants. Bass, Britain's biggest brewer, owns about 7,300 pubs and restaurants.

The divestment of assets involved is by far the biggest recommended by the commission in any sector.

The report, the result of a two-and-a-half-year inquiry, shocked the brewing industry. The Brewers' Society described the recommendations as "a charter for chaos" which would destroy the traditional British pub.

The commission has decided not to urge complete abolition of the tied house system by which breweries own and rent out pubs. The limited recommendation means that smaller regional brewers, none of which has more than 2,000 pubs and restaurants, would not be affected.

Lord Young, Trade and Industry Secretary, said he was inclined to implement the recommendations, which he said could lead to the sale of 22,000 pubs over three years.

There would first have to be talks with the European Commission on other aspects of the report, notably its recommendation to end brewers' loans to free houses which are conditional on the pubs stocking the lender's products.

In 1984, the Commission granted the loan tie an exemption from a general ban on exclusive purchasing agreements. The Commission last week announced it was reviewing that decision.

Until that review is completed, the brewers could complain that the Government was seeking to overrule a Commission decision.

The Brewers' Society yesterday declined to say whether it would be complaining to Brussels.

Brewing group shares, which fell sharply following the earlier Monopolies Commission decision yesterday not to allow Elders IXL to go ahead with its bid for Scottish and Newcastle Breweries, largely recovered after the second report was published.

The City of London believes the report could lead to some brewers opting to become retailers – notably Allied Lyons, Grand Metropolitan and Whitbread – with others such as Courage getting rid of their pubs altogether and concentrating on brewing. Foreign brewers would also see opportunities to buy into the UK market.

Lord Young said the MMC had found that there was a complex monopoly on the supply of beer. Essentially, this means that a dominant group has certain practices which could restrict competition.

"The MMC," said Lord Young, "concludes that this complex monopoly restricts competition at all levels, against the public interest."

He said the brewers restricted competition in two main ways. First they restricted the supply of drinks produced by competing brewers and wholesalers to the pubs they owned. The big six brewers produced three-quarters of all beer brewed in the UK and owned 74 per cent of all tied houses.

Second, the brewers had captured about half the free houses by offering preferential and low interest loans which tied those outlets to selling the brewers' products.

"The present system severely limits the opportunities for an independent wholesaling sector to prosper. The result is that both wholesale and retail prices are higher than they need to be."

The Monopolies Commission – which had one dissenting voice – said lack of competition meant that the price of beer in pubs had risen faster than retail prices generally, lager prices were higher than justified by production costs, and there were excessive variations in wholesale prices between different regions.

Independent manufacturers and wholesalers of beer and other drinks were allowed only limited access to the pub market. Structural changes were needed to secure a more competitive regime.

Mr Ian Prosser, chairman of Bass, said he found it difficult to see the price of a pint coming down. Brewers had told the commission that the price of a pint included all the associated benefits of sitting in a pub with a carpet, music and heating. Lower investment in pubs could lead to more people drinking at home.

Editorial comment, Page 22; Lex, Page 24

Elders IXL barred from renewing hostile bid for S&N

By Clay Harris in London

BRITAIN'S Monopolies and Mergers Commission yesterday blocked the proposed combination of two of the UK's six largest brewers by forbidding Elders IXL, the diversified Australian brewing company which owns Courage, from renewing its hostile takeover bid for Scottish & Newcastle Breweries.

A unanimous report from the commission that the acquisition would unacceptably reduce competition was accepted by Lord Young, Trade and Industry Secretary, who also followed its recommendation that Elders be forced to reduce its holding in S&N to 9.9 per cent within 12 months.

Such a disposal would take Elders' stake below even the 14 per cent it owned before a controversial market raid which netted an additional 9.48 per cent on the morning of November 10 – the day its £1.6bn ($2.7bn) bid was referred to the commission. The raid, which conflicted with the usual practice after a referral, resulted in an immediate rules change by the DTI.

The commission's main objection to the proposed acquisition centred on the creation of a combined group with 20 to 21 per cent of the total UK beer market, just behind the share held by Bass, Britain's largest brewer.

It also expressed concern about the reduction of competition in supply to the free trade and to off-licences. Competition in Scotland, where S&N and Bass already control 80 per cent of wholesaling, was also cited.

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Increase in US prices lower than expected

By Anthony Harris in Washington

US CONSUMER prices rose by 0.4 per cent in February, taking the annual inflation rate to 5.4 per cent over the past three months, compared with 4.4 per cent in the previous period. However, the increase was smaller than expected and bond markets rallied while the dollar eased.

Sentiment was also helped by new figures for real wages which showed a 0.6 per cent fall in the month, supporting hopes that future inflationary pressures were easing.

The markets remained concerned about inflation, however. Analysts pointed out that the rise in producer prices in recent months had still not worked through fully to the retail stage and described the figures as "worrisome".

Forecasts for the full year are now in the 5.2 per cent to 6 per cent range and the market expects that the Federal Reserve will maintain tight monetary conditions for some time. However, the pressure for an immediate further rise in interest rates is thought to be reduced.

The acceleration in consumer prices during February was led by food and energy, as was the rise in producer prices last week, and by a sharp jump in transport costs.

The figures were affected by two special factors, but they probably cancelled each other out. Tobacco manufacturers have been raising prices aggressively – and the clothing industry has been cutting prices.

Simon Holberton, in London, writes: Equity markets were cheered by the February US consumer price index which was lower than expected, but the outlook for markets remained clouded by expectations of higher interest rates. The dollar fell slightly on the news but recovered most of its losses by the close of trading in Europe.

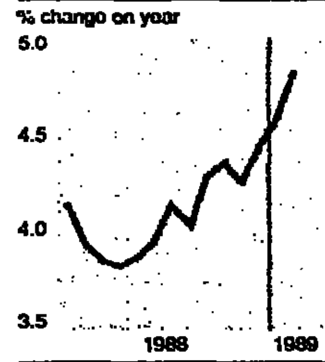
Equity prices in London and New York were buoyant. The FT-SE 100 Share Index ended 18.6 higher at 2,072.2, and the FT Ordinary Share Index closed 18.9 up at 1,709.8.

By the close in New York, the Dow Jones Industrial Average was 3.75 higher at 2,266.25.

The currency markets also remained preoccupied with speculation of higher US and European interest rates, although the Bundesbank's decision yesterday to hold a fixed rate tender for short-term banking funds was seen as a signal that it does not want higher interest rates.

The dollar closed at DM1.8725 against DM1.8750 on Monday and at Y131.20 against Y131.70. Sterling was strong and closed at DM3.2225 against DM3.2075 and at $1.7210 compared with $1.7105.

US consumer prices



Effectiveness of debt-equity swaps questioned by Mexico

By Robert Graham and Stephen Fidler in Amsterdam

MEXICO yesterday raised objections about the value of debt-equity swaps as a mechanism to achieve significant reduction of the country's debt.

Speaking at the annual meeting in Amsterdam of the Inter-American Development Bank, Mr Pedro Aspe, the Mexican Finance Minister, made the most forceful public criticism of debt-equity swaps since the US announced proposals this month for reducing the debt of *highly indebted countries*.

Such swaps reduce a country's external debt through the conversion of sovereign loans into local currency then used *to buy equity stakes in new or* existing local companies.

The debt proposals outlined by Mr Nicholas Brady, the US Treasury Secretary, placed a *new* emphasis on debt reduction, although they suggested that new loans for debtor countries would still be needed.

Mr David Mulford, the US Undersecretary-designate for international affairs, reiterated yesterday the US view that "an integral part of the approach would be for debtor nations to maintain viable debt-equity swap programmes." This could make a substantial contribution to debt reduction and had already done so in several important countries, he said. Domestic nationals should be permitted to engage in such transactions.

However, Mexico suspended debt-equity swaps more than a year ago while Brazil, the region's largest debtor, has only just resumed them on a limited scale. Yesterday, Mr *Aspe emphasised that he did* not believe debt-equity swaps could be "the solution to the problem of debt."

Listing a series of objections, he said: "The first problem confronting the (Mexican) Finance Ministry is how to obtain the necessary pesos to pay for the swap. If the pesos come from the central bank, this creates additional inflationary pressures, or the loss of international reserves. If, on the other hand, the pesos come from the market via public debt issues then this will result in higher domestic interest rates and the crowding out of other investments."

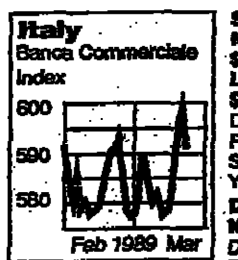
It also entailed "a substantial fiscal cost since we are exchanging foreign debt for domestic debt whose cost is normally greater, so increasing the operational (budget) deficit."

Mr Aspe then questioned whether it was right for his Government to "subsidise direct foreign investment and the international banks" when resources were scarce and people were suffering great hardship. Swaps would have to rationed since the demand for such projects far outstripped the Mexican economy's ability to absorb them.

IADB conference, Page 6; Feature, Page 22

MARKETS

Italy
Banca Commerciale Index



INTEREST RATES
US lunchtime
Federal Funds 9 13/16% (9 13/16)
3-mth Treasury Bills: yield: 9.41% (9.381)
Long Bond: 95 17/32 (95 13/32)
yield: 9.31% (9.326)
London
3-month interbank: close 13% (13 1/32)

STERLING
New York lunchtime
$1.7245 (1.7185)
London:
$1.7210 (1.7105)
DM3.2225 (3.2075)
FFr10.915 (10.8575)
SFr2.7925 (2.7625)
Y225.75 (225.25)

DOLLAR
New York lunchtime
DM1.874 (1.86875)
FFr6.3440 (6.3280)
SFr1.6235 (1.6105)
Y131.35 (131.225)
London:
DM1.8725 (1.8750)
FFr6.3425 (6.3475)
SFr1.6620 (1.6155)
Y131.20 (131.70)

GOLD
New York latest
Comex April
$395.5 (397.2)

STOCK INDICES
New York lunchtime
Dow Jones Ind. Av.
2,266.25 (+3.75)
S&P Comp
291.10 (+1.18)
London:
FT-SE 100
2,072.2 (+18.6)
World:
139.61 (Mon)
Tokyo
Nikkei Ave.
closed
Frankfurt
Commerzbank
1,531.8 (-3.3)

OIL
Brent 15-day (Argus)
$19.35 (+0.65) (April)
West Tex Crude
$19.975 (+0.70) (May)

CONTENTS

Wright comes under scrutiny over his financial dealings

Jim Wright was always likely to strike sparks when he became Speaker of the US House of Representatives, but he has now run into a firestorm of criticism over his financial dealings which could force him out of office.
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EUROPEAN NEWS

Kohl's hold over CDU faithful starts to weaken

By David Goodhart in Bonn

FOR THE first time in his seven years as West German Chancellor support for Mr Helmut Kohl inside his own Christian Democratic Union is starting to fray.

He has passed through several political crises during his Chancellorship but his survival to date has always been guaranteed by a firm grip over the party machine and a sound instinct for giving his footsoldiers what they want.

However his power-base now seems as divided over his "muddling-through" style of leadership as the voters themselves, who have recently turned their backs on the CDU in the Berlin state election and the Hesse municipal elections.

Yesterday, Mr Hubert Doppmeier, vice-chairman of the CDU grouping in the North Rhine Westphalian state parliament, became the first CDU official to say openly that Mr Kohl should step aside as Chancellor candidate after the December 1990 election, unless he stops the party's slide in the European elections in June. These are combined with municipal elections in Rhineland-Palatinate and Saarland.

According to one senior CDU official such views are increasingly common place among local activists and the CDU-supporting local press.

Poll evidence seems to confirm this picture.

According to a poll by the Mannheim Research Group in March only 30 per cent of CDU voters think Mr Kohl has the full support of his party, compared with 83 per cent in February.

Most analysts still think it highly improbable that Mr Kohl will be toppled before the next election. Mr Lothar Späth, Baden-Württemberg's Premier and the most likely challenger, said yesterday he did not want to the Chancellor's job.

Airbus backers decide prestige must be profitable, too

Management changes are aimed at making the project more commercial, writes Guy de Jonquières

AFTER ALMOST a year of intricate negotiations, marked by frequent in-fighting at the ministerial and industrial level, backers of the four-nation European Airbus have finally agreed that the pursuit of international prestige must be made to show a profit.

With roughly 1,000 commercial aircraft delivered or on order, Airbus has captured a share of the world market second only to Boeing of the US. It has also acquired potent symbolic status as Europe's most successful exercise in industrial collaboration.

However, the venture has been severely handicapped by its failure to develop into a soundly-based business enterprise. Its unwieldy and fragmented corporate structure, which has remained unchanged since it was set up 20 years ago, has frustrated firm management control and been increasingly criticised for encouraging inefficiency and high costs.

The management restructuring of the Airbus Industrie consortium, confirmed by its Toulouse headquarters yesterday, is intended to tackle these shortcomings by creating a framework in which much firmer commercial disciplines can be imposed.

Even on the most optimistic projections, the heavily-subsidised Airbus had never been expected to be profitable by now. But the consortium's growing ambitions, coupled with adverse currency fluctuations, have dramatically increased the scale of its actual and potential losses.

Eager to capture as big a share as possible of the booming world airliner market, Airbus has been rapidly stepping up production and plans a substantial expansion of its model range.

The heavy investments involved have to be paid for in European currencies. However, Airbus sales are priced in US dollars. Since the dollar began falling three-and-a-half years ago, the programme's losses have grown with every Airbus sold.

The four European governments involved in Airbus have grown increasingly reluctant to continue making good this deficit out of the public purse. They have also come under mounting political pressure from the US, which has complained that Airbus subsidies are illegal and distort competition.

At the start of last year, the European governments asked four senior businessmen from each of the Airbus countries to recommend a way out of this impasse. Their report, delivered last April, concluded that without radical reforms to improve the programme's efficiency, its survival would be in jeopardy.

Though the report's proposals have not been adopted to the letter, much of their thrust has been incorporated in the reorganisation plan, which will take effect on April 1. Its main elements are:

● Appointment for the first time of a finance director for the Airbus Industrie consortium, charged with ensuring "full open accounting" throughout the Airbus system.

● A streamlining of the Airbus supervisory board, which will be reduced from 17 to five members.

● Creation of an executive board. It will comprise Mr Jean Pierson, the French managing director of Airbus, Mr Heribert Flohsdorf, its German chief operating officer, Mr Robert Smith, its British finance director, and senior executives of the four national aerospace companies involved in the programme.

Decisions by the executive board, which will have broad operational responsibility for Airbus, will be taken by qualified majority vote and will require approval by partner companies commanding at least 60 per cent of the consortium's shares.

The first test of the new structure will be how far it enables Mr Smith, the finance director, to ferret out information about Airbus' overall financial position and the costs and margins of its member companies.

Until now, the peculiarly fragmented structure of Airbus has resulted in financial opacity. Sales and marketing have been handled by Airbus Industrie; development and production have remained the jealously-guarded domain of its four shareholders.

These are Aerospatiale of France and Messerschmitt-Bolkow-Blohm of West Germany, each of which owns 37.9 per cent of the consortium, British Aerospace with 20 per cent and Casa with 4.2 per cent. Each has kept to itself financial information about its Airbus work.

MR Smith has been given authority to inspect the companies' books and costs. However, his powers of investigation may not extend beyond Airbus work, and he will be prohibited from sharing his findings with anyone other than the company itself and Dr Hans Friderichs, the chairman of the supervisory board.

How serious these limitations will prove in practice remains to be seen. Airbus insiders believe much will depend both on Mr Smith's own persistence and Dr Friderichs' ability to stamp his authority on recalcitrant partner companies.

The drive for greater efficiency may be helped by a change in the bidding system approved for the next proposed model, a "stretched" version of its A-320. The four companies will submit competitive tenders for the whole of this project, instead of dividing up the work between them.

In the longer-term, adoption of this approach could also smooth the way for a rationalisation of the Airbus production system. At present, parts of aircraft are made in more than two dozen factories scattered around Europe and shipped to Toulouse for final assembly.

The system has been blamed for wasteful duplication. Many experts believe efficiency could be greatly improved by concentrating production in fewer sites. Such a move would, however, risk provoking arguments between partner companies.

Nationalism and the pursuit of self-interest have never lain far below the surface of Airbus' veneer of European solidarity, and few observers rule out the possibility that such sentiments will flare again in the future.

Optimists argue, however, that while the reorganisation does not guarantee solutions to Airbus' problems, it does mark an important psychological turning point and reflects a new sense of commercial realism among all involved. Whether that change of attitude has gone far enough to bring the elusive goal of profitability within reach may not become clear for some time.

Belgian public spending criticised

By Tim Dickson in Brussels

BELGIUM'S centre-left Government was criticised yesterday for failing to take advantage of the country's recent strong economic performance to make sizeable cuts in public sector spending.

After weeks of agonised cabinet deliberations Mr Hugo Schiltz, the Budget Minister, announced on Monday that this year's public sector deficit would be BFr 405.4bn ($10bn), or 6.9 per cent of gross national product.

This is significantly lower than the 1988 figure of 7.7 per cent of GNP but, as most economic and political commentators pointed out, it still falls well short of curbing the "snowball effect" whereby interest charges on the national debt rise faster than the nominal expansion of GNP.

The Belgian state now runs a budget surplus but its high level of public sector borrowing – giving it the dubious distinction of having the highest ratio of public sector debt to GNP in Northern Europe apart from Ireland – has long been a major limiting factor on domestic economic policy.

This year's targets are based on estimated Government receipts of BFr 1,598bn and spending of BFr 2011bn. Public spending cuts, meanwhile, only amounted to around BFr 17bn, much of which according to Mr Luk Van Heden of Kredietbank is either short term or technical. "I reckon that there are only BFr 5bn of real spending cuts," he suggested last night.

Most analysts feel that while the Government has achieved its commitment not to increase the budget deficit in nominal terms bigger cuts in public spending could have been attempted in view of last year's near 4 per cent real growth in output and 1989 forecasts of up to 3 per cent.

Sakharov looms over Academicians' poll

By James Blitz in Moscow

ONE white-haired scientist did not wait to enter a polling booth at the Academy of Sciences vote for the Congress of People's Deputies yesterday.

Sitting in full view of his colleagues, he furiously crossed out every name on the list.

The supporters of Dr Andrei Sakharov, the human rights campaigner, hope all the Academicians acted similarly inside the booths.

Many are furious that his name, and those of several other Academicians, were excluded from the list of 23 candidates for the 20 seats allocated to the Academy.

In front of three polling booths (whose thick, ornate curtains were drawn back and forth to emphasise the secrecy of each vote) there stood three long queues. Each contained a roll-call of the Soviet Union's greatest brains.

In one queue stood the large figure of Abel Aganbegyan, one of the economists of perestroika. In another, the silver-haired economist, Tatiana Zaslavskaya, who re-enacted her vote for Western TV crews.

Then rushing in, huddled in a grey raincoat, was Professor Roald Sagdeev, the head of the Soviet space institute. He is one of the candidates people want to see on a new list.

But one person dominated it all. "Poor Sakharov", several Academicians whispered to each other in a huddle. They were not referring to his omission from the list of candidates, but observing that the tall, bald figure with a crooked tie and top button undone was being relentlessly pursued by the TV cameras.

"I know Andrei well," said Prof Veniamin Siderov, one of the country's top nuclear physicists. "I support him because he is a great scientist."

That partly explains the hubbub. It is Sakharov's colossal place in Soviet science, as much as his human rights record, that has made his omission from the list of candidates seem so bizarre to his fellow Academicians.

His supporters hope that if enough names are struck out, several candidates will fail to get the 50 per cent of the vote needed to be elected.

The fury over the affair converted Monday's convention of the Academicians, which should have been a formality, into a eulogy to the "Father of the Hydrogen Bomb".

Yesterday Dr Georgy Arbatov, the Head of the USA Institute, could be seen talking animatedly to the former resident of Gorky. They were both laughing. But four years ago Dr Arbatov would not have mentioned his name.

● Sakharov (right) leaving the electoral convention.

Bid to mend fences in Delors committee

By Peter Norman, Economics Correspondent

THE DELORS Committee of European Community central bank governors and outside experts which is studying possible steps towards economic and monetary union in the EC has scheduled an extra meeting in April in an attempt to resolve differences.

European monetary officials said the committee will meet in Basle on April 19, one week after it was originally due to finalise its report for EC heads of government. The committee will still meet as planned for a one-and-a-half day session in Basle starting on April 11.

The officials said that extra discussion was needed to allow the 17-strong committee time to review amendments to its most recent draft report. The latter was strongly criticised in Basle last week by Mr Karl-Otto Pöhl, the West German Bundesbank president, as well as by Mr Robin Leigh-Pemberton, the Governor of the Bank of England, and Mr Pierre Jaans, the head of the Luxembourg Monetary Institute.

Mr Pöhl protested that the draft envisaged too rapid a movement towards economic and monetary union and complained that it planned a substantially increased role in European monetary affairs for the European currency unit, which is a weighted basket of EC currencies.

Britain and Luxembourg objected to the draft because it assumed that the 1992 programme for a barrier-free Europe must lead to monetary union.

Italians put work-a-day habits low on their list of priorities

By John Wyles in Rome

TRAFFIC into the centre of Rome was heavier than normal yesterday morning and parking places even more elusive because, almost certainly, more bureaucrats than usual were turning up at work.

Seasoned observers point out this is usually the case when word goes around that the powers that be are having a crack-down on absenteeism.

The powers in this case are not the management of government departments, nor Ministers themselves, but the magistrates. Acting on formal complaints from members of the public, a Roman magistrate sent the *carabinieri* (police drawn from the ranks of the military) into a variety of government offices on Monday morning and sequestered their employee attendance records.

This tends to send a frisson of anxiety through the departmental ranks since, according to government figures, the rate of absenteeism in 1987 was 8.49 per cent, or an average of 17 days a year for men and 33 for women. This, it must be said, is not exceptional for the Italian public sector; absenteeism in that year reached 10.67 per cent in some public companies.

But figures compiled by Raffaele Costa, liberal member of parliament, suggest that so high is absenteeism in some departments that, if called upon to work properly, they would be unable to do so.

The Ministry of Cultural Heritage, for example, turns in massive rate of 16.34 per cent, far outstripping the Treasury's 10.8 per cent and Health's 10.5 per cent.

It is estimated that 10,000 bureaucrats stay home from their jobs in Rome every day, with the rate of absenteeism twice as high among women than men.

The Government carried out a spot check on absenteeism in 1982 and discovered a case of a postal worker who went to his office only once a month, for his pay packet. The rest of the time he worked in his wife's electrical appliance shop and shared his salary with five colleagues who covered for him.

Polish parliament to consider draft laws on elected senate

By Christopher Bobinski in Warsaw

DRAFT laws giving Poland a president as well as a democratically elected senate and a place for Solidarity in the main parliamentary chamber get their first reading in parliament today.

The session comes as Solidarity and the authorities negotiate draft legislation at the round table, with the opposition seeking to whittle away powers the new president seems set to get and, at the same time, increase the importance of the senate.

Solidarity complaints that the drafts have been sent to parliament without a final accord at the round table have been answered with promises that changes can still be made while the legislation is being discussed in parliamentary committees.

The authorities have said that speed is essential if the elections are to be held in June. At present, the new president – to be elected by both chambers for a six-year term – would head the army, be responsible for foreign policy, propose the prime minister for approval by parliament, as well as order new parliamentary elections.

The senate, by contrast, would be deprived of the right to initiate legislation under the draft laws. Furthermore, it would only be able to block laws passed by the lower chamber if the chamber upholds the senate's veto.

Seats in the lower chamber are to be divided before the election, giving the established parties 65 per cent and the Solidarity opposition 35 per cent.

● Solidarity supporters active at the round table talks are to travel to the Soviet Union for the first time early next month at the invitation of Democratic Perestroika, an unofficial Soviet political group.

Deadlock at hazardous waste treaty talks

By Paul Abrahams in Basle

THE international conference trying to agree a treaty controlling the transport and disposal of hazardous waste remained deadlocked here yesterday.

The main stumbling-blocks appear to be a series of largely African amendments. Although these have no particular focus, the Africans are stressing that countries which produce the waste should remain responsible for its ultimate disposal.

The treaty is due to be signed today. If adopted and ratified by the 110 countries at the conference manufacturers will find the cost of handling special wastes greatly increased.

It is intended to prevent the sort of illegal dumping of waste in African countries which has gained considerable publicity in recent months.

An important objective is to reduce the international transport of hazardous waste. Mr Mostafa Tolba, executive director of the United Nations Environmental Programme, believes this can be achieved by minimising waste production through more efficient manufacturing, through investment in recycling, and by treating the waste locally, as far as possible.

The treaty would accelerate investment by European manufacturers in environmental measures. It is estimated that as many as 40 rotary kiln incinerators will have to be built in Europe during the next decade. These provide the most effective method of dealing with hazardous waste if it is not to be exported or placed in local landfill sites.

"Investment in waste management is important," says Mr Gotti Eigenmann, manager in charge of Audit and Staff Environment at Ciba-Geigy, the Basle-based chemical company. "But we need internationally accepted standards so that manufacturers know that other companies are not gaining competitive advantage by using cheap and environmentally unsound methods of handling special wastes," he says.

A price worth paying, Page 41.

Romanians face trial for attempting to protest

By Judy Dempsey in Vienna

FOUR ROMANIAN journalists who were arrested in January for trying to distribute leaflets critical of President Nicolae Ceausescu are expected to go on trial. They are accused of spreading propaganda against the state, according to Amnesty International, the London-based human rights organisation.

Mr Mihai-Petre Bacanu and Mr Anton Uncu, who work for the Romania Libera weekly, Mr Mihai Creanca, a theatre critic on Romania Pitoreasca, and Mr Alexandru Ghiroiu, a printer at the Scinteia publishing house, were detained between January 25-27. They have been denied access to their lawyers and, according to Amnesty, have been subjected to "physical and psychological pressure".

Unconfirmed reports from Bucharest and the West suggest they had planned to distribute leaflets on January 26, Mr Ceausescu's birthday. Such action is rare in a country where the security authorities wield enormous power and the media maintain a continuous flow of eulogies of Mr Ceausescu.

Despite the heavy penalties for dissent, individual petitions in recent months suggest that discontent with Mr Ceausescu's autocratic rule is growing.

Six former senior officials of the Romanian Communist Party recently wrote an open letter to the authorities appealing for human rights and an end to economic policies which, they said, had harmed the country irreparably. They have since been detained.

● A Czechoslovak appeal court yesterday reduced by one month a nine-month jail sentence on the dissident playwright Mr Vaclav Havel, Reuter reports from Prague. The court also ordered his transfer to a prison where conditions are less harsh.

Dissidents attributed the reduced sentence, imposed after a week of political protest in January, to widespread international condemnation of Mr Havel's treatment.

Management firms in European venture

SIX EUROPEAN management consulting firms have formed a joint venture aimed at winning business from clients preparing for 1992, writes Michael Skapinker. European Independents has been formed by P-E Inbucon of the UK, Kienbaum (West Germany), Orga (Italy), Bossard (France), Hartmark Iras (Norway) and Finco (Denmark).

It says it will offer consulting advice on acquisitions and joint ventures, international marketing strategies, manufacturing, distribution and human resources.

The six firms have a combined annual turnover of £150m and employ a total of 1,400 consultants. They say that they have been working on joint projects for several years.

W German N-sales to Pakistan alleged

AT LEAST 70 West German companies provided Pakistan with technology to develop nuclear weapons, the weekly magazine Stern reported yesterday, AP reports from Bonn. It also alleged that Bonn officials ignored intelligence information about the apparently illegal exports.

A regional prosecutor in the city of Hanau, Mr Klaus Schneider, confirmed to AP that his office had uncovered information implicating the companies during a review of Pakistani banking records. The office brought the findings to the attention of federal customs authorities, Mr Schneider said.

Ms Benazir Bhutto, Pakistan's Prime Minister, has repeatedly denied that her country has nuclear weapons and has no intention of developing them.

"From special steel, optical equipment and computers to highly explosive tritium, the German companies delivered practically everything that is needed for the construction of an atomic bomb – in part intentionally and in part certainly in good faith," Stern said in a report provided to news media in advance of today's publication.

It said customs inspectors "are now investigating nationwide more than 70 West German companies" suspected of illegally providing Pakistan with equipment and material for nuclear weapons development.

Brussels clears state aid for HDTV research

By William Dawkins in Brussels

THE EUROPEAN Commission yesterday allowed Britain to spend Ecu20m (£13m) and West Germany Ecu48m (£31m) to support participants in cross-border joint research for European standards for high definition television (HDTV).

The project, a mixture of industrial and academic research, is part of the Eureka pan-European technology programme. It is designed to provide an EC alternative to existing Japanese HDTV standards, to be submitted to the next meeting of the International Radio Consultative Committee (CCIR) in 1990, which will decide on the standard to be adopted as the world norm.

Other state aid schemes to receive the green light yesterday covered the West German and Danish shipbuilding industries, Spanish and Italian steel, Spanish research into energy efficiency, car production in Portugal and the marketing of Greek tobacco.

Italy's Communists and Socialists fight for leadership of 'alternative left'

By John Wyles in Rome

ITALIAN POLITICS moved yesterday into a new and still more competitive phase with the opening of formal hostilities between Communists and Socialists over who should lead any "left alternative" to a Government dominated by the Christian Democrats.

The issue has occupied much of the Communist party's annual congress which closes today after five sessions of almost cloying unanimity about the wisdom of the new social democratic direction laid down by the new leader, Mr Achille Occhetto.

His strategy, approved by the sort of extravagant majority (95 per cent) for which Communist congresses are famous, is to end a decade of electoral decline by presenting the PCI as the rallying point for all "reformist" forces seeking an alternative to the 40-year regime controlled by the Christian Democrats.

This is a blatant attempt to steal the clothes of Mr Bettino Craxi, the Socialist leader, who for all of this decade has enjoyed the luxury of planning a reformist alternative from inside the shelter of a five-party coalition with the Christian Democrats.

In a provocative opening speech to the congress last Saturday Mr Occhetto accused the Socialists of inhabiting too many "common houses" and invited them to make a start by leaving the one run by the Christian Democrats.

In response, Mr Craxi maintained his line that there was not much difference between the Occhetto PCI and the Communist party of yore, and that Mr Occhetto's speech was "full of old stuff".

In reality, he knows that much has changed and is changing in the party, but the PCI can only be an acceptable partner for Mr Craxi when it has ceased to call itself Communist and, most crucially, when the difference in the two parties' electoral support (currently about 12 points in the PCI's favour) has swung to the Socialists' advantage.

The first test of this new trial of strength on the left will be the European Parliament elections in June.

Mr Occhetto's achievement since he took over the leadership last June has been to rally behind him both the hard Communist left led by Mr Pietro Ingrao, and the party's right wing, led by Mr Giorgio Napoletano.

This has put the highly agreeable but barely reconstructed Stalinist, Mr Armando Cossuta, in anachronistic isolation, criticising the lack of a clear party line on everything from taxes to health and regretting influences which consider Marxism "a closed phase" in the party's history.

But for all of Mr Occhetto's references to the PCI's place in the European social democratic left, the party remains deeply involved emotionally and politically with Moscow. Out of the L3bn (£1.2m) it has spent on staging the congress outside Rome, it laid out a tidy sum on a giant screen behind the main podium upon which flashed on Monday a cranium bearing one of the world's most famous birthmarks.

It was Mr Occhetto's idea that Mr Mikhail Gorbachev should send a recorded message to the gathering and the 1,200 delegates were mesmerised by his televisual presence. Saying that he felt as though "I am taking part in your work," the Soviet leader drew a parallel between the PCI's search for "new solutions to the new problems of our time" and the "revolutionary restructuring" under way in the Soviet Union.

In his speech last Saturday, Mr Occhetto seemed open to the idea of changing the party's name. He does not find the idea heretical, nor do the 40-year-olds he is promoting in the party. But the emotions upon which Mr Gorbachev played burn fiercely among the old guard, and it was Mr Ingrao who told the congress that the PCI would never abandon its name, nor the hope of changing the capitalist system.

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OVERSEAS NEWS

Britain urged to change mind on HK citizen bar

By Robin Pauley, Asia Editor

BRITAIN is today urged to change its mind over its immigration rules which will bar most of Hong Kong's 5.5m citizens from the right to reside in Britain after the colony is passed to China in 1997.

The non-government members of Hong Kong's Legislative and Executive Councils have written to Lord Wyatt, who will try to initiate a debate tomorrow in the British House of Lord on the nationality problems facing Hong Kong's citizens.

Sir Geoffrey Howe, the British Foreign Secretary, and Sir David Wilson, the Governor of Hong Kong, will both give evidence today to the Commons foreign affairs select committee which is investigating progress in implementing the Sino-British agreement on the future of Hong Kong.

The letter urges the British Government to use its discretion under existing legislation to allow Crown servants in Hong Kong to register as British citizens and to be more flexible in interpreting the Nationality Act to permit greater numbers of Hong Kong citizens to become registered as British citizens.

The letter says there is deep resentment in Hong Kong over the nationality rights of Hong Kong citizens which "has become critical." The status of British Dependent Territories citizen for Hong Kong nationals will disappear on the transfer of sovereignty on July 1 1997 and will be replaced by that of British National (Overseas).

"That status will not confer right of abode in any British territory. This is where we charge Britain with abdicating responsibility for Hong Kong citizens whatever their ethnic origin for they have a legitimate expectation that Britain winll provide a home for them under British sovereignty," it says.

The letter commends Portugal which is transfering soverlegnty of Macao to China in 1999 and has granted full nationality rights to all citizens in Macao, whatever their ethnic origin.

"The prospect of Macao people having the right to live and work in Britain through their EC passports when Hong Kong citizens do not have this right will go down in history as one of its supreme ironies," says the letter.

An Afghan Mujahideen defuses a stick mine during practice at a training camp run by the United Nations in Pakistan

Najib asks UN to watch Afghan-Pakistani border

PRESIDENT Najibullah, in a speech to the nation ushering in the Afghan New Year, urged the United Nations to set up monitoring posts on the Pakistani border to halt an offensive by Afghan Moslem rebels, AP reports from Kabul.

He noted that the UN had established checkpoints along the Soviet-Afghan border to monitor the departure of Soviet soldiers and said the UN should establish similar checkpoints at a half-dozen border towns to monitor military movements from Pakistan.

He repeated his accusations that Pakistani militiamen and officers as well as Afghan guerrillas were crossing the Afghan-Pakistani border.

Meanwhile in Islamabad, Pakistan, headquarters of a coalition of seven Afghan guerrilla groups, Western diplomats speaking on condition of anonymity said the insurgents may soon attack the airport of the southeastern provincial capital of Kandahar.

Guerrilla sources confirmed that an airport assault is part of their strategy but they have declined to say when.

The Afghan president addressed his nation in a broadcast as the US-backed guerrillas continued a two-week-old siege of Jalalabad, their first major offensive since the Soviet Union withdrew the last of the troops.

Jalalabad is important because it would be the biggest city the rebels have captured and a blow to the morale of the Afghan government.

Moslems blockade Christian Beirut

LEBANESE Moslem forces cut all land links to Christian territory yesterday, following up fierce artillery battles with an economic blockade, Reuter reports from Beirut.

Christian leaders, whose troops have traded shell-fire with Moslem forces for two weeks, accused Syria of ordering the blockade, which cut supply routes for food and fuel.

Security sources said shells hit Beirut port and residential areas of Christian east Beirut yesterday, wounding three people. Barrages on Monday engulfed Beirut and areas nearly 25 miles away, killing five people and wounding 39.

The sources said roads to the Christian enclave – east Beirut and the hills and coastal district north of it – were shut, leaving it with the port of Jounieh north of Beirut as its only link with the outside world.

Jounieh itself has been hit in the past week by shelling from the Moslem side.

"All the crossings were shut by a decision from the Syrian occupying force," said a military spokesman in east Beirut. He said the action was in line with attempts to partition Lebanon into sectarian ministates.

Syria, the main foreign power broker in Lebanon, has about 25,000 troops in the country.

Lebanon's Christian and Moslem sectors are heavily interdependent for basic commodities, most carried by truck.

The Christian area supplies west Beirut with flour, petrol and cooking gas while Moslem areas provide east Beirut with fruit and vegetables.

The first people affected were thousands of commuters who normally cross the Green Line battle zone dividing the capital every day.

Political sources said the Moslems were retaliating against a sea and air blockade imposed by Christian army commander Maj Gen Michel Aoun on illegal ports serving militia fiefdoms earlier this month.

Martial law in Tibet 'halted riot plot'

A TOP Communist Party official claimed yesterday that martial law in Tibet's capital of Lhasa had "thwarted plans by foreign-based separatists to start new riots there," AP reports from Peking.

Martial law authorities ordered all transients in Lhasa to register with the police and leave the city if they were not helping with its economic development.

The order apparently would require the departure of the thousands of Tibetan Buddhist pilgrims who flock each day to Lhasa to pray at its temples. Many come on foot from thousands of miles away.

Transients "who have nothing to do with the building of the region will be dealt with harshly and the minority which has been seriously affecting production and social order will soon be cleaned up", the official People's Daily said.

It quoted the head of the Tibetan regional government, Doje Cering, as saying Lhasa's transient population had reached about 40,000 in recent years, compared with a permanent population in the capital of about 130,000.

China imposed martial law on Lhasa and several surrounding counties on March 8 after three days of anti-Chinese protests in which police opened fire on Tibetan crowds.

The official Xinhua News Agency yesterday quoted Yan Mingfu, head of the party's United Front Department, as saying martial law was imposed because intelligence showed "a separatist group abroad planned to launch new riots on March 10".

He also accused an unidentified European woman of playing "an inglorious role" by smuggling in separatist instructions for organising the riot.

PLO between gun and olive branch

Arafat's grasp on both is under pressure, writes Lamis Andoni

IT WAS in November 1974 that Mr Yassir Arafat, chairman of the Palestine Liberation Organisation, made his famous proclamation to the United Nations General Assembly that he carried both an olive branch and a freedom fighter's gun. "Do not let the olive branch fall from my hand," he said.

More than 14 years on, as his organisation prepares for another round of talks with US officials in Tunis today, Mr Arafat is under the strongest pressure to drop the gun and keep the olive branch, and is struggling to keep a grasp on both.

As a first step in formulating his Middle East policy, Mr James Baker, the US Secretary of State, is seeking to persuade both the Israeli authorities and the Palestinians to reduce the continuing violence in the occupied West Bank and Gaza Strip, and has also asked that the PLO end commando attacks on Israeli forces in south Lebanon.

This presents Mr Arafat with a clear dilemma: if he does not concede to American demands to drop the gun he might jeopardise his chances of gaining Washington's essential recognition of the PLO's role at a Middle East peace conference. But doing so would not only undermine his support within the PLO, but also rob him of one of his last bargaining chips – and this at a time when there is no sign of an Israeli decision to withdraw from the occupied territories.

Since last December, when the US lifted its long-standing ban on direct contacts with the PLO, Mr Arafat is believed to have sought a temporary freeze on commando attacks against Israel.

His aim is to enhance the credibility of the current Palestinian peace drive, both in the international community and among Israelis. But while the PLO chairman has been able to restrain fighters belonging to his own mainstream Fatah faction, he has evidently had much less success with other PLO groups. Indeed, the last few months have witnessed an escalation of commando operations against Israel, especially from south Lebanon.

Since December, Palestinian factions have claimed responsibility for at least nine guerrilla operations. Apart from one by the renegade Abu Nidal group last December, the others were mostly carried out by left-wing factions within the PLO.

The escalation has been widely viewed in the West as part of an effort by the radical Palestinians to undermine Mr Arafat's peace initiative and dialogue with Washington – a charge denied by officials of the relevant groups.

"It is not true that these attacks are aimed at embarrassing Arafat or at sabotaging the dialogue with the US. We want the dialogue to continue," said Mr Azmi Khawaja, an Amman-based member of the Popular Front for the Liberation of Palestine, which was responsible for at least two infiltration attempts.

But he and other officials pointed out that the crucial session last November in Algiers of the PLO's decision-making body, the Palestine National Council, called for "the escalation of armed attacks against Israeli military institutions" to support the continuation of the Palestinian uprising (or *intifada*).

Mr Arafat lent his support to that resolution, but he has been privately urging other PLO factions that launching military attacks at this time could undermine the PLO's international political gains.

Israel's persistent refusal to talk to the PLO, its attempts to quell the 15-month-old Palestinian uprising and Washington's ultra-cautious approach to its new-found dialogue with the organisation have made it difficult, if not impossible, for Mr Arafat to persuade the other factions to exercise self-restraint.

Arafat: hands full

Western diplomats say that although the PLO has been able to launch an "effective and intelligent" international campaign, it still demonstrates what one called "impatience and unrealistic expectations" from the US Administration. They stress that the PLO should realise that President George Bush needs time to finalise its Middle East policy.

Palestinian officials, on the other hand, have been provoked by a US veto of a UN Security Council resolution last month criticising Israel's handling of the uprising and by Washington's call on the PLO to halt armed struggle against Israel while not taking action to force the Israelis to reduce the use of live ammunition against civilians in the West Bank and Gaza.

The increasing toll of casualties in the occupied territories has prompted severe Palestinian criticism of Mr Arafat's conciliatory statements. "The PLO leadership is giving many concessions for free, while the US is pushing for more concessions," said a Palestinian intellectual in Amman.

There is also growing resentment at Washington's apparent reluctance to recognise the PLO as the sole legitimate representative of the Palestinian people and to endorse a UN-sponsored international peace conference to solve the conflict.

A recent statement by Mr James Baker, the US Secretary of State, suggesting that Israel might have to talk to the PLO if efforts to negotiate with the Palestinians in the occupied territories failed is viewed as a positive signal by Palestinians. But they continue to harbour deep suspicions that the US is trying to turn what they hoped would be a dialogue on how to end the Israeli occupation into one on how to end the *intifada*.

The recent escalation in armed attacks on Israel should thus be seen in part as an effort to pre-empt perceived US attempts to dampen Palestinian resistance, according to Mr Qais Abdul Karim of the Democratic Front for the Liberation of Palestine.

Such tactical differences have undoubtedly strained relations between the PLO factions of late. But there is no suggestion that the united front which Mr Arafat managed to assemble behind his peace drive last November is about to crumble.

On the contrary, PLO officials will go into their second round of formal talks with Mr Robert Pelletreau, the US ambassador to Tunisia who has been designated by Washington as the sole channel for the dialogue, intent on focusing on what they regard as the issues of substance: the Israeli occupation, Palestinian rights and the proposed international Middle East peace conference.

Bush talks on Mideast peace push

PRESIDENT George Bush will explore Middle East peace prospects in talks in Washington with the leaders of Egypt, Israel and Jordan over the next six weeks, the White House said yesterday, Reuter reports from Washington.

President Hosni Mubarak of Egypt will meet Mr Bush on April 3, Mr Yitzhak Shamir, the Israeli Prime Minister, on April 6, and King Hussein of Jordan on May 2.

Mr Marlin Fitzwater, White House spokesman, said the President would seek the views of the leaders on the best way to advance the peace process and made clear Mr Bush would not unveil a new American initiative at that time.

Eric Silver in Jerusalem adds: Mr Yitzhak Shamir, the Israeli Prime Minister, last night denied widespread reports that intelligence chiefs had advised the Cabinet they could not expect to negotiate with the Palestinians without talking to the Palestine Liberation Organisation.

Asked which part of the reports he was denying, Mr Shamir told a Jerusalem press conference: "All included in this information was a lie." The reports, carried by several Israeli newspapers and state radio on Monday, ran counter to Mr Shamir's policy of attempting to negotiate with non-PLO Palestinians.

Mr Shimon Peres, the deputy Prime Minister and Labour leader, declined to answer questions about the report. His party is accused of leaking it.

The press conference marked the end of an international Jewish solidarity conference, which produced a variety of views but no outright challenge to Mr Shamir's hardline policy towards the Palestinians.

NZ budget reversal aimed at cutting $2.6bn deficit

By Dai Hayward in Wellington

MR David Caygill, New Zealand's new Minister of Finance, yesterday made an about turn on the government's fiscal policy in his first budget by raising corporate and sales taxes.

He raised corporate taxes from 28 per cent to 33 per cent to bring them into line with personal taxation. This is a partial reversal of the tax cuts announced by his predecessor, Mr Roger Douglas, last April when he cut corporate taxes from 48 per cent to 28 per cent.

In an article in a New Zealand newspaper Mr Douglas, now a backbencher following his sacking in December by Mr David Lange, the Prime Minister, warned that tax increases risk putting New Zealand into "a low-growth, high-unemployment future."

Mr Caygill told Parliament that New Zealand's economic recovery from recession was underway and he wanted to give business a clear message that the Government intended to press ahead with economic reform and to encourage urgently needed job-creating investment.

The prospect of a NZ$2.6bn (£935m) government deficit "hangs over the economic landscape like a black frost. It threatens to burn off new shoots of growth," he said.

His fiscal changes were designed to cut the threatened deficit back to NZ$1bn or around 1 per cent of GDP.

In addition to the corporate tax change they include an increase from 10 per cent to 12.5 per cent in the Goods and Services Tax - New Zealand's VAT - adding NZ$700m to government revenue; a cap on defence expenditure to hold it at NZ$1.4bn a year until the end of fiscal 1992 and a ceiling on spending by government departments at present levels, saving NZ$700m a year.

The corporate tax rate for non-resident companies will rise from 33 to 38 per cent, maintaining the five percentage point differential over New Zealand companies.

These measures are in addition to the NZ$300m in cuts recently announced in social benefit payments and education costs.

The package cut four cents a litre in the government duty on petrol and seven cents a litre on diesel. The duty on marine fuel was abolished. Government duty on cars was reduced from 15 per cent to 7.5 per cent.

Mr Caygill said New Zealand interest rates were too high. The Government's biggest contribution to boosting the economy was to reduce its own need to borrow and so freeing those funds for other lending.

Mr Caygill is hoping that New Zealand's rate of inflation, which has fallen over the last 21 months from 18 per cent to 4. 7 per cent, will drop further to less than 2 per cent in the early 1990s.

However, the increase in GST will have an impact on the Consumer Price Index. Mr Caygill estimated this as a one-off rise of 1.7 per cent but this was described as "just ridiculous" by Mr Klaus-Peter Kriegsmann, research director at Ord O'Connor Grieve. "The retail sector's margins are that much squeezed and the temptation to pass the rise on will be very high. Trade unions would be highly unlikely to settle for uncompensated lower purchasing power for their workers," he said.

Mr Caygill has already announced that no compensation will be given to government departments to cover the GST increase.

Mr Andrew Hibbard, the ANZ Bank's economist, said the budget was a gamble with the government's desire for lower interest rates highly at variance with the worldwide upward trend.

Nigeria set to endorse rescheduling

By Michael Holman

NIGERIA is expected today formally to endorse terms for a 20-year rescheduling of its $5.2bn debt to commercial banks.

The signing ceremony in London will mark the end of negotiations which lasted more than a year. Agreement in principle was reached last September, but the deal was dependent on Nigeria winning the approval of the International Monetary Fund for its recovery programme.

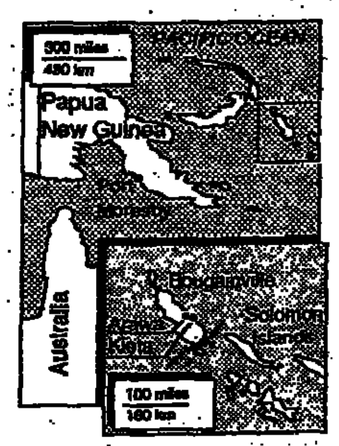
This was secured at the end of January, when the fund approved an SDR475m (£360m) standby credit for Nigeria. The Government has said it does not intend to draw on the facility.

The agreement today is the latest in a series. Earlier this year Nigeria and the Paris Club of official creditors negotiated terms for the rescheduling of $6bn owed to Western governments. The country's total external debt is $29bn.

Full details of the deal, negotiated on the banks' behalf by a steering committee led by Barclays, BNP and Citibank, have not been disclosed. But bankers say there will be a 20-year repayment of medium-term obligations of $2.7bn, beginning after a three-year grace period.

Papua New Guinea violence spreads

By Chris Sherwell, recently on Bougainville Island, Papua New Guinea



THE Papua New Guinea Government has ordered troops to the eastern island of Bougainville to halt an outbreak of killing, arson and street violence which has highlighted a crisis of security facing Prime Minister Rabbie Namaliu.

The terminal building and a small aircraft at the island's Kieta airport were destroyed by fire on Monday. Kieta is the country's second international airport after Port Moresby, the capital, and serves the nearby Bougainville copper mine operated by CRA, the Australian resources group.

According to reports from Port Moresby yesterday the situation was tense. Earlier it was reported that a saw mill was burned down and a policeman and one other person were shot.

The Government had already dispatched police reinforcements to the island on Monday, following a mob rampage at the weekend in Kieta and the neighbouring town of Arawa in which stores were damaged and looted.

The violence is being traced to the axe-killing last week of a local girl, blamed on migrant plantation workers and squatters who come from the mainland Highlands region of Papua New Guinea. On Friday, two plantation labourers were killed and others injured in revenge. Their co-workers then went on the rampage.

Mr Namaliu, speaking yesterday after an emergency cabinet meeting in Port Moresby, described the latest violence as "shameful and deplorable" and said the Government had decided firm action was necessary to deal with those who had "taken the law into their own hands".

The troops will arrive in Bougainville to find a security situation which has been deteriorating since November when a group of young local landowners, angry that their extravagant claims for compensation against the Bougainville copper mine had not been met, stole some of the mine's explosives and launched a campaign of sabotage.

They destroyed mine buildings, felled power transmission pylons and brought an expensive eight-day halt to operations. An island curfew was imposed and scores of extra police were drafted in. But no one has been arrested and the explosives are still missing.

Some suggest the local authorities are subverting police efforts. Certainly Bougainvilleans tend to see the saboteurs more as folk heroes than criminals. Last week the premier of the North Solomons provincial government on Bougainville and local religious leaders suggested they be given an amnesty.

This is a problem for Mr Namaliu. But his eight-month-old coalition Government depends on the support of the Melanesian Alliance, the principal political party in Bougainville, to maintain its parliamentary majority.

Father John Momis, a Roman Catholic priest who is head of the alliance and is Provincial Affairs Minister, has a key role in seeking a restoration of authority. He is not finding the sensitive issue easy to resolve. Long an opponent of the mine, he was a key member of the Bougainvillean movement which threatened to secede from Papua New Guinea at the time of its independence from Australia in 1975. It was that which led to the creation of the country's 19 provincial governments.

For Mr Namaliu the violence in Bougainville is only one, if the most serious, of a number of crises which have confronted him since he ousted Mr Paias Wingti in a vote of no confidence last July.

Last September the country's second most important mine after Bougainville, Ok Tedi, was forced to shut down after a mob of workers raided a liquor store and rampaged through the streets. The mine, operated by Australia's BHP group, had already suffered a strike a few weeks earlier.

Last month, a group of soldiers mounted a violent street demonstration in Port Moresby over long unmet pay claims. And earlier a large group of police staged a public protest outside a cabinet minister's house in the capital over remarks he was alleged to have made about the police commissioner.

Coupled with general fears about the spread of street crime and of official corruption, the incidents are taking a corrosive toll on Papua New Guinea's image abroad. The official view in Port Moresby is that most of the problems can and will be solved in Papua New Guinea's own "Melanesian way".

Last month Mr Namaliu managed to fend off a motion of no confidence with an adjournment of parliament.

Brady plan on debt aid encourages Philippines

By Richard Gourlay in Manila

THE Philippines plans to reduce its request to commercial creditors for new loans from around $1.6bn (£940m) when it meets banks next month, but hopes at the same time to benefit from the initiative to reduce Third World debt announced last week by Mr Nicholas Brady, US Treasury Secretary.

Mr Vicente Jayme, the Philippine Finance Secretary, said: "It (our package with commercial banks) is likely to be a combination of new money and debt reduction although for the country it will mean a lower level of debt payments."

He welcomed the Brady initiative as one more weapon with which to cut the burden of the country's $27.9bn of international debt.

The Philippines is able to begin talks on new loans following agreement on a new $1.3bn International Monetary Fund programme last week.

Mr Jayme and Mr Jose Fernandez, the Central Bank governor, yesterday signed the agreed letter of intent and memorandum of economic policy and sent it to the Fund's executive committee for formal approval.

Banks and aid donors have been waiting for the IMF programme as a sign that the Philippines is prepared to follow sound economic policies. Mr Jayme has previously said the Philippines will need $1.6bn-$1.8bn from commercial creditors over the next three years to meet its financing needs.

Creditor bankers claimed in December during the first new money talks that the Philippines needs far less.

Mr Jayme also said he hoped talks with the Paris Club of official creditors to reschedule $1.9bn of debt could begin before the IMF executive board gives its formal approval.

AP adds: President Corazon Aquino of the Philippines yesterday praised her army for freeing hundreds of villages from communist rebel influence and appealed to Congress for more funds to bring "a swift and conclusive end" to the 20-year insurgency.

Armed forces statistics show that rebels were active in 18.7 per cent of the country's more than 41,000 villages last year, a decrease of 6.8 per cent from the 1987 figure.

Detainees spurn Pretoria offer

FOUR emergency detainees who sought asylum in the West German embassy in Pretoria on Monday refused to leave the premises yesterday, despite the Government's announcement that documents authorising their release from detention had been signed, writes Anthony Robinson in Johannesburg.

The four decided to continued their protests against detention without trial until Mr Sandile Thusi, a fellow hunger striker who is reported to be seriously ill in Durban, is released.

The Government's attempt to defuse the issue came as thousands of black workers in the Eastern Cape and Durban areas struck in commemoration of the 29th anniversary of the 1960 Sharpeville massacre and the fourth anniversary of the fatal shooting of 21 people by police in the Eastern Cape township of Langa, near Uitenhage.

Soviet Africa trip

Mr Anatoly Adamishin, Soviet Deputy Foreign Minister, was due to leave yesterday on a nine-day trip to Mozambique, Zambia, Angola and probably other African states, Mr Vadim Perfiliev, Foreign Ministry spokesman, said, Reuter reports from Moscow.

Mr Perfiliev said Mr Adamishin would discuss settlement of regional conflicts as well as bilateral co-operation and international issues. He would also meet Mr Sam Nujoma, president of the South West Africa People's Organisation.

Amnesty plea

Amnesty International, the human rights organisation, has called on the Uganda Government to investigate increasing reports of killings of civilians and prisoners and the use of torture by the army and intelligence organisations, writes Michael Holman.

In a 50-page report published today, Amnesty notes that such abuses were "greatly reduced" when President Yoweri Museveni took power in 1986, but "there is evidence that torture has not been eliminated".

At least 3,000 alleged political opponents remain in detention without trial, most arrested by the army in northern and eastern Uganda.

Mistrust fans the flames of troubled privatisation

Gary Mead looks at Argentina's foundering sell-off programme

FOR A country groaning under the burden of a state-owned railway which loses $2m a day, it is not surprising that a recent opinion poll showed 70 per cent of Argentines in favour of privatisation.

However, the Alfonsin Government's attempts to create a coherent approach to privatisation have floundered – caught between the flamboyant intentions of Mr Rodolfo Terragno, the Minister of Public Works, and the mistrust of the Peronist opposition in parliament.

Any government in Argentina faces problems in tackling privatisation.

Between 1965 and 1987, 13 of the largest state-owned industries accumulated debts in local and foreign currency equal to $52bn and since then the total has grown further.

In 1987 Argentina's nationalised industries lost $8.5m every day of the year, and last year's figures are believed to have been worse.

Every year the Government has to find 30 per cent of the total financing requirements of 117 state-run industries. Two of the worst are Aerolineas Argentinas, the national airline, and ENTel, the telephone company.

While President Raul Alfonsin has embraced the idea of privatisation as a way of reducing state spending, he and his Government continue to condone the hiring of people in the public sector.

Rodolfo Terragno

The Argentine state has taken the place of a welfare benefits system. Unemployment pay does not exist in Argentina.

Since President Alfonsin took office in 1983, the number of state employees has grown by 4 per cent, mostly in central government bureaucracy.

A glaring example of such over-manning is Aerolineas Argentinas. It takes 30 per cent more staff to lift an Aerolineas aircraft into the skies as it does for Scandinavian Airline Systems, yet SAS runs a fleet almost three times bigger.

Nevertheless, it was Aerolineas that Mr Terragno selected in February 1986 as the flagship of the Government's privatisation programme, proposing to sell part to SAS.

On August 11 last year Mr Horacio Domingorena, the then president of Aerolineas, dismissed in an interview with the Financial Times any suggestion that the Aerolineas-SAS deal was likely to be finalised in the near future.

The same day Mr Terragno announced the deal had been signed that day, and produced a copy of the agreement.

On August 12 Mr Domingorena accused Mr Terragno of lying about the nature of the SAS-Aerolineas deal.

He was quickly out of his job, sacked according to Mr Terragno, resigned according to Mr Domingorena.

The central issue – turning Aerolineas around from a 1987 $23m loss to a profit through merging with SAS – quickly disappeared in the murk of recriminations.

According to Mr Terragno, Aerolineas had been valued at $510m, and SAS would pay $204m for its 40 per cent stake. Mr Domingorena said SAS was prepared to pay $156m, valuing the company at $110m less than Mr Terragno's claim.

Mr Terragno rebuffed that claim throughout the months leading up to December 15, the deadline SAS had imposed for Congress to approve the deal.

The Peronist opposition party, with a majority in the upper house (the Senate), vowed to oppose the deal.

They criticised Mr Terragno on many grounds including for not having sought competitive bids and for proposing to break laws forbidding private foreign capital entering state-run industries.

Against this background, Mr Terragno on December 15 withdrew the proposed sale from Congress, and announced he would call for other bids.

SAS would of course be invited to return to the table. He set a new deadline for this month.

Nothing has yet been heard and it is now less than two months from a presidential election which the Peronists are confident of winning.

The view of the World Bank, which is overseeing the project, is that at the earliest the paperwork might be ready by May, but probably July.

The cost to the Argentine Government has been at least $600,000 in bankers' fees. SAS, besides having had almost $200m tied up for most of 1988, spent at least SKr5m ($780,000) on advertising and research.

Raul Alfonsin

The other privatisation scheme – to sell 40 per cent of Argentina's national telephone company, ENTel, to Telefonica of Spain – has had an equally unpromising track record.

ENTel offers subscribers the dubious service of a 30 per cent failure rate for all dialled calls and its 1987 losses were 10 times those of Aerolineas.

Despite this, the Spanish telephone company appeared interested in breaking into a potentially significant Latin American market and in March 1988 Mr Terragno signed a similar letter of intent with Telefonica to that drawn up with SAS.

Telefonica would pay $750m for a 40 per cent share, and again the deal had to receive Congress approval.

On December 26 last year, the ENTel-Telefonica proposal was sent to the Senate. Like Aerolineas-SAS, it too has little chance of being approved for months, if at all.

Congress is in recess, where it probably will stay until after the May 14 presidential election.

Peronist senators have vowed to oppose the deal for the same reasons they attacked the SAS-Aerolineas deal.

Their anger at their sense of having been manipulated by the Government means that Argentina's faltering step towards dismantling its bloated public sector are doomed for 1989, and perhaps long after.

Moreover, Peronists have begun to make noises about corruption, alleging that as much as $17m has been handed out in "sweeteners" to friends of the Government.

Last month Mr Jose Deheza, a former Minister of Defence in the Government of Mrs Isabel Peron, called on the Attorney General's office to investigate the Telefonica agreement, under articles of the penal code, referring to fraud, abuse of authority, and violation of duties by public office holders.

Mr Deheza has not named any official. But in Argentina there rarely is smoke without a blaze.

Premier's defeat mars Tory win in Alberta

By David Owen in Toronto and Larry Donovan in Edmonton

THE Progressive Conservatives in Canada won a sixth consecutive majority in the Alberta provincial election this week but the victory was rendered hollow by the decisive defeat of Premier Don Getty in the Edmonton-Whitemud riding.

Mr Getty was defeated by Liberal Mr Percy Wickman, a former city councillor. Mr Getty is expected to decide shortly whether to stand down as leader of the party.

The Conservatives won 59 of the 83 seats, against 61 in the last election less than three years ago. The party's majority in the provincial legislature was reduced by four to 35.

The left-of-centre New Democrats under Mr Ray Martin won 15 seats - one fewer than in 1986, while the Liberals more than doubled their representation to nine.

The Liberals won more of the popular vote than their New Democrat rivals at 28 per cent to 26 per cent but their support was spread more thinly. The Conservative vote amounted to 45 per cent.

Although slated at forming another majority government, the Conservatives have clearly been shaken by Mr Getty's unexpected defeat. The party remained invincible because of its strong support in rural areas.

The New Democrats will be satisfied to have remained official opposition but disappointed not to have built on the momentum generated in 1986 when the party made its big breakthrough in Edmonton.

The Liberals under Mr Laurence Decore, the former Edmonton mayor, will be delighted to have sprung several surprises in the cities. After minor gaffes, Mr Decore mined a rich seam by targeting the issue of fiscal responsibility and attacking a list of lavish Tory spending pledges.

If Mr Getty goes, front-runners for the premiership include Mr Dick Johnstone, the provincial treasurer, Mr Ralph Klein, former mayor of Calgary, Ms Nancy Betkowski, Health Minister, and Mr John Zaozirny, the charismatic former Energy Minister.

US sees failure of its El Salvador policy

By Lionel Barber in Washington

THE victory of the right-wing candidate, Mr Alfredo Cristiani, in El Salvador's presidential election highlights the failure of the US policy to build a centrist majority party in the strife-torn Central American state.

The Arena party's triumph over the ruling Christian Democrats may also complicate the Bush administration's dealings with Congress which, since 1981, has been willing to pump more than $1.2m a day into El Salvador to promote political moderation and restore the economy.

Despite misgivings about Arena's links to the para-military death-squads, the US government appears to have little choice but to back the new regime which inherits a struggle against the left-wing FMLN guerrillas which has killed an estimated 70,000 people.

Mr Cristiani has been provisionally declared winner in last Sunday's presidential race by the Central Election Council with 576,890 votes – "more than half" having been verified by the CEC. Final results are not expected until later this week.

Senator Christopher Dodd of Connecticut, one of the most influential Democratic policy-makers in Congress, said he was willing to give Mr Cristiani a chance. The State Department echoed this "wait and see" approach.

US officials pointed out yesterday that in the long run Mr Cristiani may be better placed to negotiate with the rebels than former President José Napoleon Duarte who never enjoyed full support from the armed forces and whose power was sapped by rising corruption and his illness.

Nevertheless, there is concern in Washington that in the short term El Salvador may revert to the violence and oppression which marked the early 1980s. Then Vice-President Bush visited El Salvador to warn the regime it risked a cut-off in US aid unless the death squads were curbed. Last month, in an eery diplomatic reprise, Vice-President Quayle delivered the same warning in El Salvador.

Tim Coone adds from San Salvador: Mr Cristiani has said his economic policy will be "radically different" from that of the outgoing government. He said: "The state presently controls 60 per cent of the economy. We believe in a free market. The state has a role to play in the economy, but not as a monopoly in foreign trade and banking."

He was also emphatic that there would be no roll-back of the agrarian reform carried out by the Christian Democrats.

IADB NOTEBOOK

The plan that isn't

By Stephen Fidler and Robert Graham in Amsterdam

● **Mulford's message:** There seems little doubt that the man most in demand at the Inter-American Development Bank conference in Amsterdam over the last few days has been Mr David Mulford, the US Treasury official considered to be the chief architect of the US debt proposals.

The message he has been pushing here has several strands: The US does not hold all the cards in the international arena, so the ideas are not a plan. The formulation of the broad principles on which to move ahead must await the spring meetings of the International Monetary Fund and World Bank next month. The voluntary framework is just that and there is no hidden plan to force the banks into write-downs through tax or regulatory moves.

At a press conference yesterday, he addressed the question of guarantees. Given the statutes, guarantees, strictly speaking, are probably out of the question. The World Bank might provide guarantees, but "this might not necessarily be the preferred approach." Thus IMF and World Bank loans could be set aside to finance cash buy-backs of debt or used as collateral for an exchange of bonds for debt.

There is, however, obvious disquiet among some European governments about this in some quarters about this. The British alternate governor to the IADB, Mr Ian Buist, said yesterday; "We maintain the principle . . .that debt reduction schemes should not transfer risk from the private to the public sector."

Mr Mulford's contention is that the official sector has been taking under the current strategy a greater share of the burden. Better this should happen, he says, in the context of a shrinking debt burden than the current expanding one.

● **Political paradox:** Former finance ministers are a common sight at IADB meetings, hovering in corridors, offering advice and wondering if they could do any better.

One of the most consulted is Jesus Silva Herzog, the former Mexican finance minister who was also a member of the special committee which last year conducted a review of the IADB.

He now says that his main concern at the Brady proposals is the risk of a much fiercer North-South confrontation.

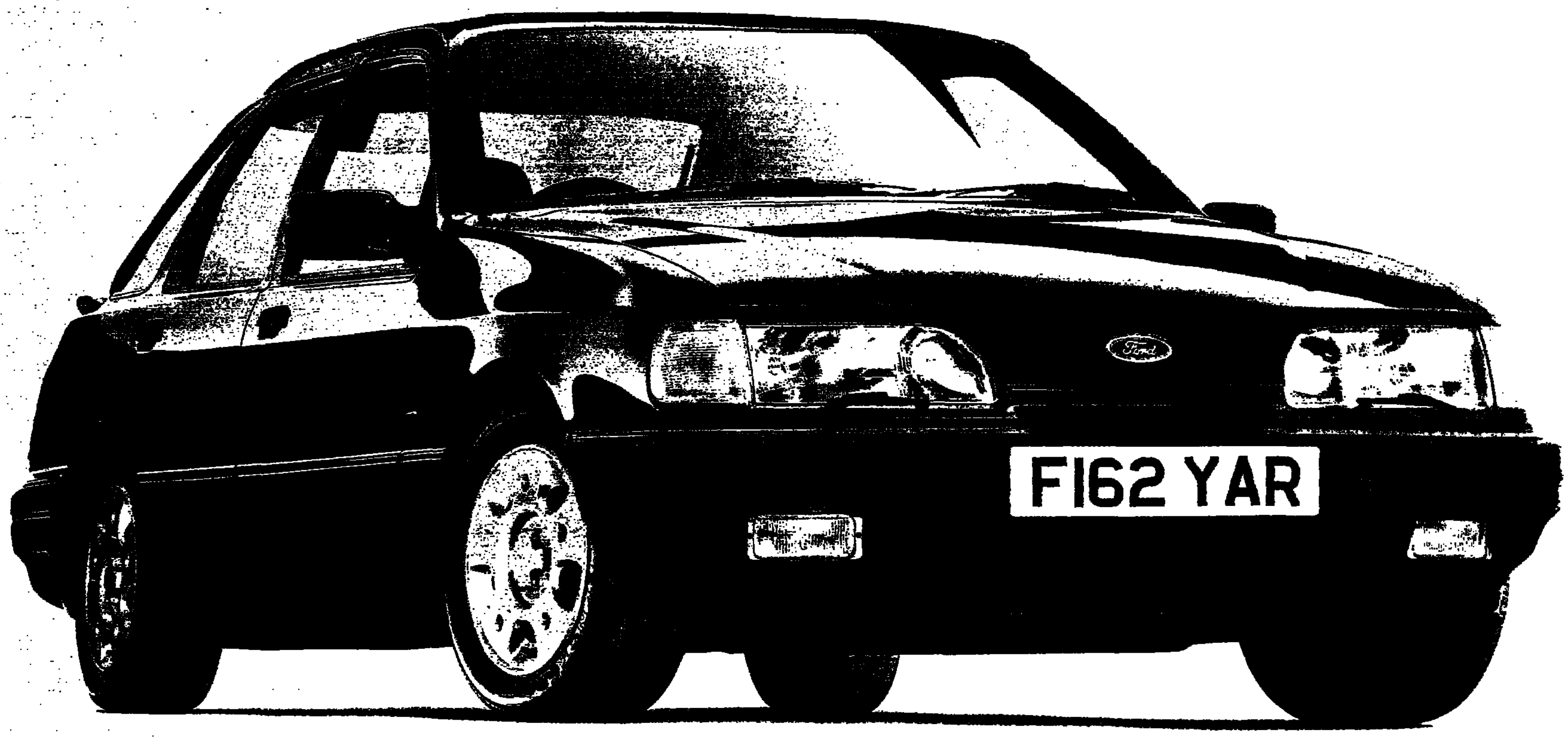
"The debtors are being asked to liberalise financial markets, remove barriers to inward investment, deregulate the economy - this may be economically sound but for most it is politically impossible," he said.

● **Reviving Recapture:** One of Mr Silva Herzog's proposals in 1984 was to attempt to link Mexico's debt service payments with the fortunes of its main export, oil.

This idea may be starting to have some interest for bankers in the context of debt reduction. If they are being asked to provide debt relief when oil prices are low, shouldn't banks benefit if it once more rises in the 1990s?

In bankers' parlance this is a recapture clause, and Mr Silva Herzog says he favours such ideas provided it would work both ways. The concept, not without its technical difficulties, could involve the issue of long-term warrants to banks to allow them to win long-term benefits from a rise in the price of oil.

● **Capital countdown:** Whatever the outcome of the negotiations to clear a capital increase for the IADB, it was clear yesterday that - if the replenishment is to be agreed by the close of the annual meeting this morning - the talks would be going down to the wire. Negotiations were expected to go on late into the night.



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Ford

US takes EC to Gatt in Airbus subsidies row

By Nancy Dunne in Washington

THE US Trade Representative has intensified the longstanding US-EC dispute over Airbus subsidies by requesting formal consultations with the European Commission under Gatt.

The request, made after months of warning that the US would not tolerate new subsidies to Airbus, specifically targets an exchange rate subsidy rescue plan for Deutsche Airbus and its parent company Messerschmitt-Boelkow-Blohm.

In Brussels yesterday the Commission repeated its approval of the subsidy and denied that Bonn was breaking Gatt rules.

The dispute over assistance to Airbus has become a major irritant in US-EC trade relations, with the US insisting that Airbus benefits unfairly from massive subsidies.

The spokeswoman for the Trade Representative said she expected consultations to begin within 30 days.

US trade officials maintain that the subsidies by West Germany, France, the UK and Spain have helped Airbus to win sales from Boeing and McDonnell Douglas unfairly.

However, the EC argues the US companies receive indirect subsidies through military contracts and contend that the European subsidies prevent US companies from establishing a monopoly over the world aircraft industry.

This particular complaint stems from an agreement to persuade Daimler-Benz, West Germany's largest industrial company, to acquire a 30 per cent share in MBB. Bonn agreed to protect Daimler against $2.3bn in losses resulting from a weaker dollar and said it would end subsidies to Airbus by the year 2000, when all shares of MBB will be in the hands of the private sector.

Though the US has made known its opposition to the German scheme months ago, EC officials consider Washington's formal protest ill-timed, given the delicate state of efforts to restart the Uruguay Round negotiations in Gatt.

The Commission justified its March 8 approval of the subsidy, saying its aim "is the introduction of private risk capital into Deutsche Airbus and the complete phasing out of government intervention". Therefore, "the plan goes a long way in meeting longstanding requests by the US to reduce the public element in the Airbus programme".

EC to investigate alleged dumping of denim cloth

By William Dawkins in Brussels

THE European Commission yesterday confirmed it was opening an inquiry into alleged unfair under-pricing of denim cloth imported from Turkey, Indonesia, Hong Kong and Macao.

The investigation follows complaints lodged by Eurocoton, the Committee of the Cotton and Allied Textile Industries of the EC, which represents nearly all Community denim producers. It could lead to the imposition of punitive dumping duties. Eurocoton claims imports from the four countries rose from 999 tonnes in 1985 to 15,216 tonnes two years later, a rise in EC market share from 0.8 per cent to 8.4 per cent.

They significantly undercut their Community competitors, with the result that European producers have been forced to drop their prices by 30 per cent since January 1987, says the complaint. Community producers' stocks have increased and capacity utilisation has fallen significantly. They claim that dumping has made EC producers lose 15 percentage points of Community market share and prevented them from getting an adequate return on sales. The Commission has given all involved 30 days to put their side of the dispute.

Bearings makers face dumping inquiries

By Nick Garnett

ANTI-DUMPING investigations in the US and the European Community against manufacturers of bearings will take a step forward within the next few days.

Preliminary dumping duties averaging 56 per cent were levied late last year on a number of bearing manufacturers exporting to the US.

This followed a complaint to the US Department of Commerce by Torrington, the US bearings maker. The complaint was levelled at bearing makers in nine countries, including Japan, several EC countries, Thailand and Singapore.

SKF of Sweden, the world's largest bearings maker, was hit by duties of between 50 and 130 per cent on bearings supplied from its West German factory and duties of 24 to 200 per cent on products made at its UK plant.

The Department of Commerce will announce soon, possibly tomorrow whether these preliminary duties should be confirmed or amended.

The issue will then pass to the International Trade Commission which has to decide whether US manufacturers have suffered injury.

US makers might find this difficult to prove as most of their factories are operating at full capacity and prices in the US have risen by an average 13 per cent in the past year.

Injury has to be proved or the duties will be rescinded. In November last year, the Department of Commerce rejected calls to limit bearing imports into the US.

A separate anti-dumping investigation is under way in the EC. This follows a complaint from five European producers and involves miniature bearings and small ball bearings under 30mm outside diameter.

The complaint is directed against all the main Japanese manufacturers of these bearings. There is also a specific complaint against the Thailand operations of NMB, the bearings division of Minebea of Japan, and a complaint against the Thai Government over alleged subsidies.

Japanese whisky importers agree to cut prices

By Ian Rodger in Tokyo

TWO big whisky importers have bowed to Japanese Government pressure to make further price cuts on their brands after major tax reductions on spirits are implemented next month.

Importers had been worried that a sudden storm of government and media criticism of their pricing plans for the new era was damaging the image of all imported spirits.

"I am concerned about what impact this media attention is going to have on the overall industry," said Mr John Dur, president of Heublein Japan, a subsidiary of the UK-based Grand Metropolitan.

Some importers wonder privately if they have fallen into a trap laid for them by the Japanese authorities and distillers, designed precisely to damage the image of imported spirits. "Everything that happens in Japan has a reason," Mr Mark Bedingham, senior managing director of Jardine Wines and Spirits, a subsidiary of United Distillers, said yesterday.

The storm blew up two weeks ago when the National Tax Administration asked importers to "make further efforts" to reduce their prices on April 1 following the implementation of tax reductions on imported spirits. The reductions were agreed last December after more than a decade of complaints by foreign governments that Japan's taxes on spirits discriminated against imports.

But when importers published their new suggested price schedules earlier this month, it was clear that the prices of many imported spirits were not going to drop by as much as the tax reduction. At a time when many Japanese people are angry about the planned introduction of a 3 per cent value added tax on April 1, this news was not well received. According to one whisky industry official, the political pressure on the National Tax Agency to do something about it suddenly became very strong. Newspapers too jumped on the issue.

United Distillers, the import leader, has so far resisted the pressure. Mr Sunji Noritomi, its president, said that pricing of brands was an internal marketing matter, and its strategy under the new regime was to have brands at all price levels. He pointed out that while the prices of some brands would not decline by as much as the tax reduction, others would go down much more.

Mr Noritomi said that he had explained the company's position to the tax agency on Friday, but was told there was strong political pressure for further price cuts. Further meetings between the two are planned.

Mr Dur said Heublein had already proposed price cuts at least equivalent to the tax reduction on all its brands so it was not affected directly by the tax agency's demand.

Kirin-Seagram, the joint venture between Japan's Kirin Brewery and the Canadian Seagram group, announced on Friday that it was responding to the tax agency's demand by making a further price cut of Y200 on a 750cl bottle of 100 Pipers scotch bringing its price to Y3,300 (£14.60). Initially, it proposed only a Y500 reduction. A further Y200 cut will also be made on Four Roses bourbon. However, the company would not cut further the price of Chivas Regal, its premium Scotch, even though the planned reduction was Y49 less than the Y549 tax reduction on it.

For its part, Suntory, the dominant Japanese distiller, which has a marketing joint venture with Allied Lyons of the UK, agreed to make further reductions in its imported spirits, including Balantine whiskies and Jack Daniel bourbon. A Suntory official said the company was responding to the tax agency's request.

Trade-off offers answer to Gatt impasse

Jagdish Bhagwati and André Sapir propose a solution to the Montreal deadlock

THE mid-term review of the Uruguay Round multi-lateral trade negotiations ran aground in Montreal last December over the clash between US demands and the European Community's refusal to meet them in the agriculture sector. By contrast, the equally thorny issue of services, pitting the US instead against important developing countries was marked by apparent accommodation.

However, the truce was purchased with artful language that leaves open to negotiation the key issue of how the developing countries are to be brought into a services compact. With compromise in the air on agriculture, this issue will have to be squarely faced as the Uruguay Round moves forward.

It is important to reiterate the need to draw the developing countries into a services compact, both for their own benefit and to broaden the scope of the agreement as widely as possible to strengthen the multilateral system.

This would hardly need emphasis, except for the fact that the US negotiators have often expressed the hardline position that they would proceed with a services compact of their own choice, teaming up with the like-minded OECD countries and giving the developing countries the Hobson's choice of either joining or keeping out. The pact would offer them "conditional most-favoured-nation treatment" – i.e. benefits conditional on reciprocal acceptance of obligations. This would, however, make demands on these developing countries that would virtually guarantee their exclusion from a services compact.

Producer services are indeed of importance to developing countries: more import competition and efficiency here would be of great benefit to them. But key developing countries have been anxious that immediate and full exposure to the large international corporations would decimate their own companies, leaving invaluable infrastructure in foreign hands.

As the US has not hesitated to strike down Japan in high-tech competition through a battery of anti-dumping actions and export restraints, so Brazil and India (among others) have wanted a larger share of the informatics sector than a free play of the market would give them: everyone seems to believe that this sector is necessary for economic prosperity and development. How then to compromise, without sacrificing key principles, to respond to these and other concerns?

A specific proposal, broadly consonant with the Montreal compromise formula that liberalisation 'commitments take "due account of the level of development", can be advanced. The developed countries, with reasonable symmetry of perceived capacity to compete, should enjoy equal rights and assume equal obligations. But, for developing countries, the compact should offer unconditional MFN status (i.e. equal rights but no obligations), but with two important provisos built into the rules.

First, there must be pre-scheduled graduation to assumption of equal obligations by clear criteria. Thus, at the end of an adequate "grace" period, say 15 years, the unconditional MFN would turn to conditional MFN for those who graduate: rules (and associated discipline) would have to be accepted symmetrically now. The graduation could be immediate for the Pacific superperformers, the Four Tigers. The grace period could also vary by sector.

Second, until this transition, there must be quantity obligations instead. This is already done with centrally planned economies (which naturally cannot offer reciprocal, rule-defined market access) that are Gatt members. Thus, for example, Brazil, while free to open as many banks as it wants in Paris, London and New York, would accept (say) three new banks annually on a non-discriminatory basis from countries who join the services compact. The quantity obligations could vary by "level of development" and by sector. They could also be made to conform, as far as possible, to the broad principles (such as "non-discrimination" and "national treatment") that the service compact embodies.

The advantages of such a compromise are obvious. The services compact could then be formulated to reflect the best principles, without the need to sacrifice them in negotiation to entice major developing countries on board. At the same time, the developing countries, now offered reasonable time, could be brought on board without divisiveness, and induced through exposure and experience into eventual adoption of the rules regime which can only benefit their economies.

Jagdish Bhagwati is Arthur Lehman Professor of Economics at Columbia University, New York. André Sapir is Professor of Economics at the Free University of Brussels.

US farm sales to Japan to reach $8.2bn

US farm sales to Japan will reach $8.2bn this year, topping sales to Western Europe for the first time, AP reports from Washington.

US exports to the European Community are expected to drop to $7.3bn for the fiscal year ending September 30, said Mr Thomas Kay, Administrator of the Foreign Agricultural Service.

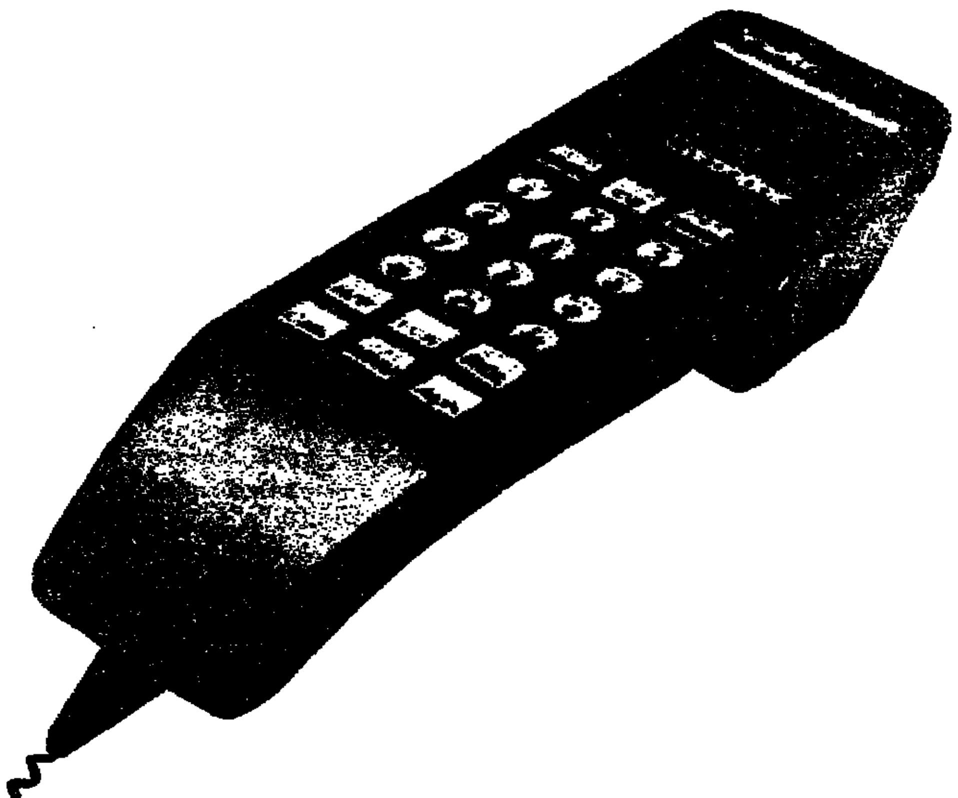
Chinese plea to EC

Wang Fang, a Chinese State Councillor, called on European Community countries to boost investment in China, AP-DJ reports from Hong Kong.

Tuesday's edition of the English-language China Daily reported that Wang, speaking to the opening of a three-day China-EC investment seminar in Peking said EC investment in China was not in line with the good political relationship which existed.

Air link agreed

China and Malaysia will sign an aviation agreement in Peking next month, paving the way for the first direct air service between the two countries, AP-DJ reports from Kuala Lumpur.



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UK NEWS — MONOPOLIES REPORTS ON BREWING

Attack on a complex monopoly

By Christopher Parkes, Consumer Industries Editor

THE MONOPOLIES and Mergers Commission yesterday published a critical and weighty report designed to crush the complex monopoly which it has found at work in the British brewing industry.

Focusing on the six national brewers, the commission ranged beyond its basic brief to investigate the supply of beer, and found restrictions on choice, hostility to would-be competitors and distortions of trade wherever it looked: in pricing, in tenancy arrangements, the supply of soft drinks, spirits, cider and low-alcohol beers.

Even the installation of electronic one-arm bandits was scrutinised, and the commission recommended that the issue might be worthy of a further investigation by the Office of Fair Trading.

For the moment, however, the big six brewers have weightier projects at hand, such as the forced sale within three years of 22,000 pubs, equivalent to two thirds of their total estate.

Allied Breweries, the Allied-Lyons subsidiary, Bass, Courage, Grand Metropolitan, Scottish & Newcastle and Whitbread will all be affected by the recommendation that no brewer should own more than 2,000 on-licensed premises. Bass faces the biggest task in disposing of 5,300, while Scottish & Newcastle has to sell only 300.

In arriving at the 2,000 figure, the commission noted that the measure would not affect regional or local brewers. The figure was big enough, it said, for the brewers to employ plant of an economic size especially since the pubs kept would probably be the largest. They would also be able to keep up volumes through greater sales to the free trade.

The other main recommendations were:

● A ban on the granting of tied loans, under which brewers offer owners of free houses substantial loans at low interest rates on condition that they stock specified quantities of the lenders' products.

The commission discovered that loan-tied houses accounted for more than 25 per cent of the national brewers' total beer sales. "This seriously restricts the opportunities open to the smaller brewers to expand their business," the report said, as well as limiting customer choice.

● An end to restrictions, commonly imposed by brewers, such as product ties and controls over the future use of pubs which are sold. The commission rejected Brewers' Society claims that a tie, obliging a new owner to stock specific products, effectively reduced the price of the pub, thus easing a newcomer's entry to the trade. "The proprietor . . . is restricted in the choice he can offer consumers and may be purchasing beer at a price which will give him little opportunity to price his products competitively," the commission said.

Although the Brewers' Society said its members had almost entirely ceased imposing covenants on sold pubs, forcing the new owners to use them for other purposes, the commission still recommended a formal ban on the practice.

● Tied tenants should be protected by the Landlord and Tenant Act. The brewers told the commission that tenancies, which account for about 53 per cent of their beer sales, provided opportunities for individuals to run their own businesses. However, the commission found that restrictions on the tenants' freedom of action meant that the relationship between brewer and tenant was much closer to that of employer and employee.

Tenants' representatives told the commission that they felt considerable constraint and were under pressure in some cases to buy all their drinks from the brewer. The tenants believed that if they did not, they would be labelled "poor company men" and their premises would receive less investment and modernisation. Failure to toe the line could also lead to higher rents.

"We consider that the lack of security of tenure . . . makes it possible for the brewers substantially to limit the independence of their tenants and thus to reinforce the ability of brewers to exploit and maintain their monopoly position," the report said.

● Tied tenants should be free to buy low-alcohol or alcohol-free beers, wines, spirits, ciders, soft drinks, water and cider from the most competitive suppliers. The commission rejected brewers' claims that customers had a wide selection to choose from in their pubs. Guinness, the stout maker which owns no pubs, Bulmers, the cider maker, and Coca-Cola Schweppes Beverages (CCSB) and others provided evidence to convince the commission that the brewers, not the customers, decided which products would be supplied.

Bulmers complained that it had lost market share through the rapid and systematic exclusion of its ciders from pubs.

The soft drinks market was similarly affected by reorganisation that took place during the two-and-a-half-year commission probe. It involved the formation of Britvic Corona under the control of Bass with minority stakes held by Allied and Whitbread. The company supplies Pepsi-Cola and Britvic fruit juices. "It now appears that the companies owning Britvic Corona are excluding or partially excluding the products of CCSB from their managed estates and to some degree also from their tenanted estates," the report found.

● Brewers should publish and adhere to wholesale price lists, the commission said, showing prices and discounts available to all customers. They should also be obliged to encourage the development of an independent drinks wholesaling network with a requirement to supply such companies from their breweries or depots at a price which took into account the saving on the brewer's distribution costs.

Some wholesalers had complained that the discounts they were offered were lower than those offered to some retail outlets. The commission concluded: "We are convinced . . . that the reason why most brewers are at best neutral and at worst hostile to independent wholesalers is the threat that they perceive would arise to their own wholesaling and retailing activities if a strong independent wholesaling force came into being."

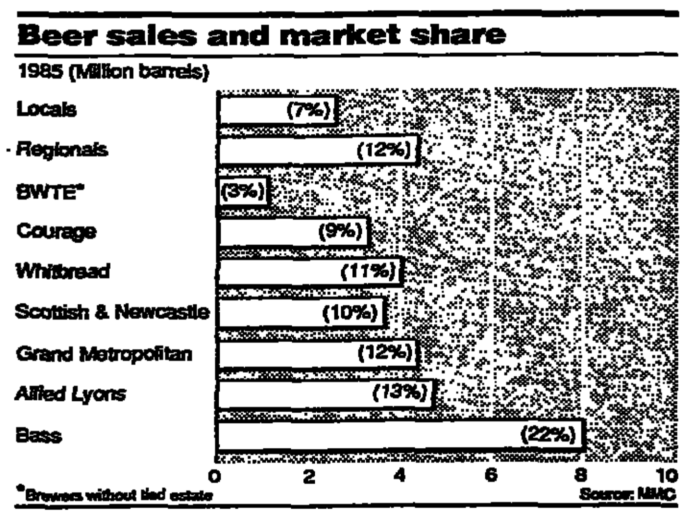
The brewers were also judged to have used the complex monopoly to impose price increases on beer. Since 1979 the price of a pint of bitter, excluding VAT and excise duties, had risen by 15 per cent more than the rate of general inflation measured by the Retail Prices Index. Wholesale beer prices also rose by a real 15 per cent between 1981 and 1986.

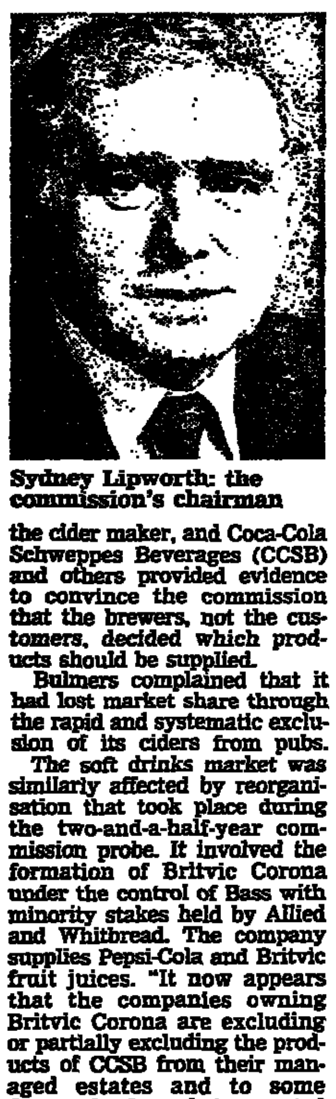
The brewers drew attention to the cost of heavy investment in pub improvements, suggesting the increases were needed to finance them. But the commission said it did not consider that improvements to public house amenities had been much greater than in retailing generally. "Moreover, improvement in retail amenity cannot explain increases in the retail price of beer," it added.

The commission was also critical of the brewers' pricing policies on lager, which commonly sells for about 10p a pint more than ale. Dismissing claims of heavy advertising budgets and higher direct costs than in ale production, the commission found that some brewers' production costs for lager were actually lower than those for other beers.

"Lager has represented over 25 per cent of the UK beer market for the last 10 years, and now makes up nearly 50 per cent of the total. The price differential can no longer be justified on the grounds that it is a new product," the report said.

The Supply of Beer, a report on the supply of beer for retail sale in the United Kingdom. Cm 651. HMSO. £22.





Sydney Lipworth: the commission's chairman

Industry makes £16bn a year

BREWING accounts for some £16bn a year or 25 per cent of Britain's total leisure market, estimated to be worth about £65bn.

Since 1982, overall alcohol consumption has been rising moderately, the main source of growth coming from wine. Sales of beer in the UK peaked in 1979-80 at 42m barrels. After falling rapidly, sales have been static since 1982 at about 37m barrels a year.

Lager has grown from about 2 per cent of the total beer market to just under 50 per cent. Many lager brands are brewed under licence from foreign brewers.

The take-home market has been growing steadily over the past decade and now accounts for about 17 per cent of sales.

Capital expenditure in pubs has increased in an attempt to make pubs more hospitable to new drinkers, including women. Capital expenditure rose from £361m in 1981 to £576m in 1987.

Food is of increasing importance to profits, with pub food accounting for an estimated 40 per cent of the £6.8bn eating out market in 1988.

There are 66 sizeable brewery companies in the UK, eight national companies and 58 regional and local companies. The industry provides more than 444,000 jobs.

The national brewers are those whose brands are marketed throughout the UK. Accounting for almost three quarters of sales, they include Bass (Carling Black Label), Allied Lyons (Castlemaine XXXX), Whitbread (Heineken), Grand Metropolitan (Budweiser), Courage (Foster's) and Scottish & Newcastle Breweries (Newcastle Brown). Three others — Guinness, Carlsberg and Northern Federation Brewery — own no pubs and supply to other brewers.

Regional companies such as Greenall Whitley, Wolverhampton & Dudley and Vaux, with about 17 per cent of the market, tend to concentrate their operations on specific parts of the country while local companies sell their beer mainly in the immediate area of the brewery. There are also some 140 tiny brewers, known as "micro" brewers, accounting for about 1 per cent of sales.

Criticisms of 'tied' system echo 1969 report concerns

By Lisa Wood

SIR GORDON BORRIE, Director General of Fair Trading, announced the investigation into Britain's unique system of "tied" public houses in July 1986.

The system, which obliges tenants of brewery-owned pubs to buy most of their beer from the owner, has caused considerable concern in the past. A Monopolies Commission report in 1969 concluded that a system in which brewers did not own or control licensed outlets was preferable to the tied-era system. But it made no recommendations on the abolition of the tie.

Since the 1960s, there has been a decrease in the number of brewer-owned pubs as a percentage of the total. However, that must be seen in the context of the big brewers continuing to exert a considerable influence in outlets deemed "free houses" through a system of cheap loans in return for taking a brewer's beers.

Sir Gordon referred to four main concerns when he announced the current MMC inquiry. They were the restrictions to competition imposed by the system, the difficulties faced by independent suppliers, the limitation placed on consumer choice, and the apparent high prices, margins and profits within the industry.

Other countries' beer 'is stronger'

By Clay Harris

WHAT MANY British drinkers have long suspected has been officially confirmed by the Monopolies Commission report, which states: "UK beer is on average weaker than the beer in most other countries." Of 39 countries surveyed in 1987, only Hungarian beer had a lower average alcohol content than the 3.7 per cent figure in the UK.

However, it was the structure of beer markets in other countries — not the strength of the beer itself — that was at the centre of the Commission's international investigations. It made its own study of the US and Belgium and received reports on seven other countries.

The Brewers' Society, meanwhile, submitted evidence that the British pub was more popular than its Continental counterpart and that the ratio of the price of beer sold on premises to that in off-licences was lower in the UK than in four other European countries.

In the end, the Commission expressed itself "doubtful about drawing firm conclusions from any international comparisons, when market structure is so affected by historical and legal factors."

Accordingly, it largely dismissed the brewers' arguments, mostly based on evidence from the US, about the benefits to the consumer of vertical integration.

The beer trade in the US is controlled by federal and state legislation dating from the repeal of Prohibition in 1933.

The central, governing tenet is the separation of ownership at each level of the production chain: brewing, wholesale and retail. The wholesaler, indeed, is legally required as a buffer between the brewer and retailer.

A recent illustration of the effect of those laws came in the requirement that Britain's Grand Metropolitan, as a distributor of alcoholic beverages, should sell the licensed restaurant chains it acquired with Pillsbury last year.

The strict rules against any vertical integration — laws in some states still quaintly refer to the "tied-house evil" — did not reflect concerns about competition so much as a fear of organised crime.

Brewers and wholesalers are forbidden not only to have an interest in a retailer's licence but also to exert "influence" over the retailer in a variety of ways.

In some states, the Commission found, all beer must be sold at the same prices to wholesalers, often at publicly posted price. Arrangements for discounting and credit are strictly controlled.

Only a few "micro brewers" are excepted from the full force of the restrictions, but they are unlikely to play more than a marginal role in the US beer market, which is dominated by Anheuser-Busch (with 40.9 per cent share in 1987) and Miller (21.2 per cent).

Although only the leading brewers could afford the national advertising necessary to support brands, the Commission found strong support for regional beers. Regional brewers, it said, were able to support brands by concentrating media expenditure in regions of their greatest popularity.

In Belgium, the other market studied in depth by the Commission, the 70 per cent combined share of the two largest brewers, Belbrew and Maes Kronenbourg, is not dramatically larger than in the US. The structure is considerably different, however, from those in the US or Britain.

The large brewers have their own warehousing and distribution systems, but perhaps as much as two thirds of all beer in the country is carried out by 3,000 independent *entrepositaires* which deliver not only to smaller cafés and restaurants, but also direct to customers' homes.

On the retail side, there are very few managed houses in Belgium, and the on-licensed sector is divided about equally between tenants and owner occupiers. The breweries own some premises, but most are owned by private individuals or leisure companies. Many tenants are tied in terms of the brands they serve, and there is significant loan tying, but agreements on the latter have been closely monitored since 1984.

The Commission found that the same general pattern — close links between brewers and distributors and brewers owning a minority of retail outlets — applies, with local variations, in most other continental countries.

BEER CONSUMPTION, 1986

	Litres per head	% draught	% packaged
W. Germany	147	28	72
E.Germany	142	-	-
Czechoslovakia	133	44	57
Denmark	130	3	97
Belgium	120	42	58
New Zealand	120	40	60
Austria	116	34	67
Australia	111	32	68
UK	108	76	24
Ireland	104	80	20
Hungary	99	9	91
US	91	12	88
Netherlands	86	23	77
Canada	81	9	91
Spain	63	35	65
France	40	24	77
Italy	22	16	84

Source: Brewers' Society from organisations in each country

Aussies forsake 'stubbies' for class

By Gordon Cramb

THE AUSTRALIAN pub, unlike its British counterpart, has traditionally dispensed beer better than bonhomie, satisfying straightforward thirsts in spartan surroundings.

But while television commercials abroad still evoke the corrugated-iron outlets of the outback, the last 15 years have transformed the country's licensed trade.

The first break in the "tie" which had committed pub lessees to the products of a single supplier was made in 1974 by the Queensland state government of the irascible Mr Joh Bjelke-Petersen (later Sir Joh).

The state premier was displeased at the takeover of a local brewing company and its pub chain by the Victorian-based Carlton & United Breweries (CUB) — now the Australian brewing arm of Elders IXL — and introduced legislation requiring pubs there to stock a wider range of beers.

That was followed by a similar ruling in New South Wales, although court battles meant that only this decade has the brewer-retailer relationship been unwound nationwide.

Sydney and Melbourne now have pastel-hued establishments in which trendy tipplers are sometimes less likely to be seen with a "stubbie" of Foster's than sipping from the transparent, more elongated bottle favoured by Corona, a Mexican beer that seems set to repeat there its recent triumph in urban US markets.

A crop of "boutique" brewers has also emerged recently within Australia. The diversity is, however, largely deceptive, and the history of brewing there has been one of consolidation.

At the turn of the century, Victoria alone boasted 53 breweries, of which Carlton was market leader with a one-fifth share. Carlton is now the sole Victorian brewer of any scale.

At least that proportion of the overall Australian market is held by a duopoly comprising Elders and Mr Alan Bond's Bond Corporation. Two of the world's most internationally minded brewers are fighting their keenest contest at home.

Beer prices in Australia are subject to government control and volume sales have been flat. Annual per-capita consumption is around 110 litres, on a par with the UK and at the tail of the world top 10.

But consumer allegiance along state lines is being eroded, and Elders last year laid claim to the New South Wales market leadership.

Although some of its figures are hotly disputed by Bond, Elders says that not only does Foster's take a quarter of beer sales in Australia's most populous state, but that the last five years have also brought a 19 per cent NSW share for a brand unsurprisingly called Victoria Bitter.

That has not come cheaply, but Elders insists that Bond has in recent months been outspending it two-to-one in Australia on advertising and promotion. Last year each is believed to have spent in the region of A$40m (£19.3m).

Bond has three distinct operations in Australia — Swan from Western Australia, Castlemaine XXXX in Queensland and Tooheys, the traditional NSW brand leader. Elders, which in NSW operates the Tooth brewing interests, has a number of locally promoted lines.

The pubs themselves appear to have benefited from a greater business involvement by the licensees. Both big brewers have moved their outlets into joint ventures, often including the incumbent tenant as an equity partner.

The end of the tie stopped the brewers' large building programmes of the 1960s. Its implementation came too late, though, to rescue the only onsite foreign competitor the Australian brewing industry has faced.

Courage of the UK, in partnership with what is now BAT Industries, opened a brewery in CUB's Melbourne heartland in 1968, but lasted just a decade, never sustaining the 10 per cent market share in Victoria which was its minimum target.

Courage accused CUB of monopolising beer sales through its tied hotels, and tried to set up its own chain of outlets. But — in a seemingly inexorable sequence of takeovers — Courage then sold its local operation to Tooth, whose brewing interests were absorbed by CUB in 1983, the year before Elders bought CUB.

In 1986, Elders acquired Courage in the UK, completing a circle which it found neatly ironic at the time. But the Melbourne brewer, 17 years after seeing off a British competitor on its home ground, was yesterday taking a more sober view of the limits that have now been imposed on its own UK growth.

ELDERS IXL BID FOR SCOTTISH & NEWCASTLE BREWERIES

International aims thwarted on competition grounds

By Lisa Wood

ELDERS IXL's proposed acquisition of Scottish & Newcastle Breweries would have restricted competition, particularly in the Scottish beer market, the Monopolies and Mergers Commission said yesterday.

In blocking Elders' £1.6bn bid for S & N, the MMC also sought to reduce the Australian group's influence on the management of S & N by ordering it to reduce its 23.6 per cent stake to 9.9 per cent within 12 months.

A 175-page report, unanimously agreed by the MMC, gave five main reasons for its conclusion that a merger of Courage, Elders' UK brewing subsidiary, and S & N would have adverse effects on competition in the industry and would be against the public interest. They were:

● It would create a second big beer group, which, together with Bass, the biggest supplier, would control more than 40 per cent of beer supply. There was no guarantee, said the MMC, that the two brewers would compete fiercely.

● Consumer choice and competition would be reduced, greatly increasing the scope of the control of a single brewer that was seeking to expand sales of its Foster's lager. The brand was also sold by two other brewers.

● It would reduce competition for the supply of beer to the free trade, a market where there is fierce competition between the leading brewers.

● It would restrict competition in Scotland and reinforce the duopoly enjoyed by Bass and S & N and remove the possibility of Courage entering the market on its own.

● It would reduce competition in the supply of beers to off-licences where Elders' Hofmeister, for example, competes against S & N's Kestrel.

Elders' gearing and other financial aspects of the Australian group would have been examined, said the MMC, had it not found that the proposed merger gave rise to serious public-interest detriments on competition grounds. In particular the MMC referred to the shareholding in Elders held by two private companies, Harlin and Petitio, the effect of which was to give Elders a degree of "bid-proofing".

John Elliott: radio remarks used against Elders

UK BEER MARKET

Estimated market share, %

	Courage	S & N	Merged group	Bass
Beer	9.4	10.7	20.1	22.0
Ale	8.9	13.4	22.3	19.2
Lager	9.9	7.7	17.6	25.2
Tied trade	10.8	6.4	17.2	22.9
Free trade	7.0	14.7	21.7	24.8
Take-home trade	11.1	12.9	24.0	14.0

Source: Courage estimates

THERE was delight yesterday at Scottish & Newcastle's base in Edinburgh and immense satisfaction, tinged with a little surprise, among leading Scots at the MMC's decision on the Elders IXL bid, writes James Buxton.

S & N staff, who heard the news just after nine o'clock, saved most of their jubilation for spontaneous after-hours parties and an evening celebration for staff and supporters at the company's Rutland Hotel. Any thought of what might now happen to Elders' 24 per cent stake in S & N was cheerfully banished.

Scottish politicians and representative organisations had waged an unusually united campaign against the Australian predators, basing their argument principally on the damage that the Scottish economy could suffer if it lost its largest independently managed manufacturing company.

In the event, the MMC cited only competition factors in reaching its verdict, but there was sufficient recognition of regional issues in its report to satisfy the Scottish lobbyists who had advanced them.

"This is a famous victory for the integrity and vitality of Scottish controlled business enterprise," said Mr Hamish Morrison of the Scottish Council (Development and Industry). "It marks a high point in the continuing campaign to reinforce Scottish corporate control."

Professor Jack Shaw of Scottish Financial Enterprise, who had told the MMC that a takeover might severely affect the Scottish financial services industry which his organisation represents, said the outcome of the bid signalled "acceptance of the arguments in favour of the continued autonomy of well managed regionally-based businesses."

Mr Malcolm Rifkind, the Scottish Secretary, said he very much welcomed Lord Young's decision on the bid. The Scottish Office argued against the bid on competition grounds and on its effects on the Scottish economy.

Although very few people in Scotland publicly supported Elders, several Scottish businessmen in private showed little sympathy for S & N and were impressed by Mr John Elliott, chairman of Elders.

Yesterday the dissidents said it was now up to S & N to restructure its business, reduce the hotel sector's drag on its earnings and settle the question of the Elders stake. "They've won a big battle but not the war," said one.

The Australian group, under the leadership of Mr John Elliott, its ebullient chairman, first entered the UK brewing market in 1986 when it bought Courage, a brewer based in the south-east. The brewer, commanding 9.4 per cent of the market with brands including Foster's and Hofmeister lagers and John Smith's bitter, made a pre-tax profit of £144.1m in the 12 months to June 30 1988.

S & N, which had proposed a merger with Courage in the 1970s, is based in Edinburgh and its brands, including McEwan's Export, Kestrel and Newcastle Brown Ale, are particularly strong in Scotland and the north-east. The group, with 10.7 per cent of UK beer sales and other activities including *Thistle Hotels*, made a pre-tax profit of £113m in the 12 months to May 1 1988.

Elders, in its bid, argued that S & N was strategically at a loss, had a weak beer portfolio and was a natural fit with Courage. The Australian group provoked considerable controversy in the UK when it lifted its stake in S & N to 23.6 per cent after the MMC investigation was announced.

The report said that S & N argued strongly before the MMC for a reduction in Elders stake. The company said Elders would have the ability not merely to block all special resolutions but also to block or pass ordinary resolutions.

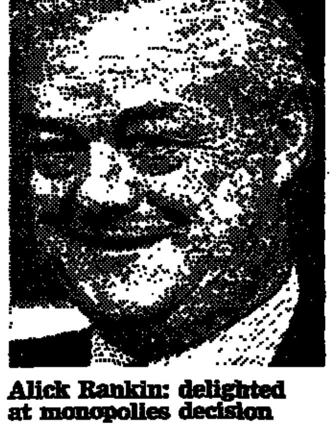
The UK brewer also pointed out to the MMC a statement by Mr Elliott on the radio: "Now we've got 23.6 per cent of the stock, so we're in a strong position to command the direction of S & N, no matter what happens."

S & N, whose chief executive *Mr Alick Rankin* was delighted yesterday at the MMC report, said a takeover would adversely affect competition by removing any possibility of Courage entering the Scottish market as an independent competitor. S & N said it considered Courage — with its Foster's lager — to be a natural candidate for entry into that market, independent of the takeover. It was "against the public interest that such entry be effected by acquisition instead of by competition."

The brewer also highlighted the free trade, an area where it is strongly represented. Here, some 55 per cent of free houses — those not owned by brewers — can receive cheap loans in return for taking a brewer's beer. The merger, said S & N, would reduce the competition for such contracts.

Elders, it claimed, would probably reduce the range of ales and lagers brewed by S & N and so reduce the range of beers available to pubs.

It also claimed that regional development would be severely and adversely affected and jobs would be lost if the merger went ahead. It had little confidence in Elders' undertakings that it planned to locate its worldwide brewing business in Scotland.



Alick Rankin: delighted at monopolies decision

S & N also questioned Elders' strategy in developing Foster's as a global brand and denigrated its strategic aim of using S & N's alleged under-capacity to service Continental markets. It said any brewer proposing a serious assault on these markets would find it preferable to do so by way of local brewing.

Elders, in its evidence to the MMC, emphasised what it perceived as the changing face of the UK and European beer market and the development of "global brands", particularly if there was a loosening of the tied-house system in the UK.

The Australian group said changes in the UK beer market would place Courage and most of the rest of the UK beer market at a disadvantage in comparison with Bass and the major Continental brewers.

It said: "In the absence of the proposed merger, Courage, notwithstanding the strength of its brands, would suffer from its lack of adequate scale in terms of national distribution and its lack of production capacity with which to expand sales, particularly on the Continent." The effect on S & N, claimed Elders, would be even more serious.

Competition, said Elders, would not be adversely affected in any relevant market sector. It also said it had made a firm public commitment that the proposed merger would not bring any reduction in jobs in Scotland, with estimated job losses of up to 3,000 achieved by natural wastage or voluntary redundancies in England.

Elders said any suggestion that Scotland should be afforded special protection against "foreign" investment of the kind envisaged by its proposed merger was "clearly not in the interests of the Scottish economy."

The Industry Department of Scotland, the Bank of Scotland, the Scottish Development Agency and Scottish Financial Enterprise argued against the merger.

The SDA told the MMC that the proposed merger would have detrimental long-term consequences for economic development and employment in Scotland. The proposed acquisition, it said, was one of a series which had undermined Scotland's corporate base. S & N acted both as a nursery and role model for effective senior management in Scotland.

The MMC said it believed Elders would honour its commitment to move its brewing headquarters to Edinburgh. However, the report said: "Although it is possible that high-level posts will be brought to Edinburgh, we are not convinced that this will provide a satisfactory substitute for an independently-managed Scottish company."

Elders IXL and Scottish & Newcastle Breweries: A report on the merger situation. HMSO. Command 654.

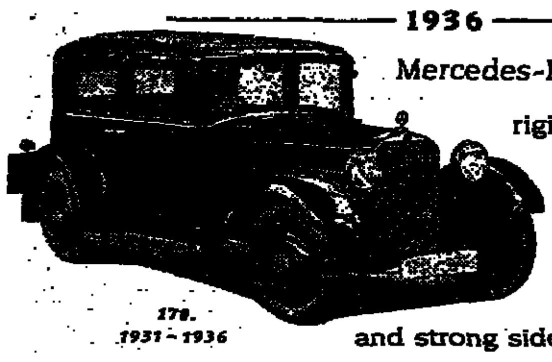
Over the years no one has done more for safety than Mercedes-Benz

1931

Independent front suspension developed to allow each wheel to follow road surface contours unhindered by the movements of the other front wheel for greater stability, comfort and improved steering control.

It is subsequently adopted, almost universally, by other manufacturers.

1936



170.
1931–1936

Mercedes-Benz develop the rigid-frame floor pan, three - section collapsible safety steering column and strong side-impact protection.

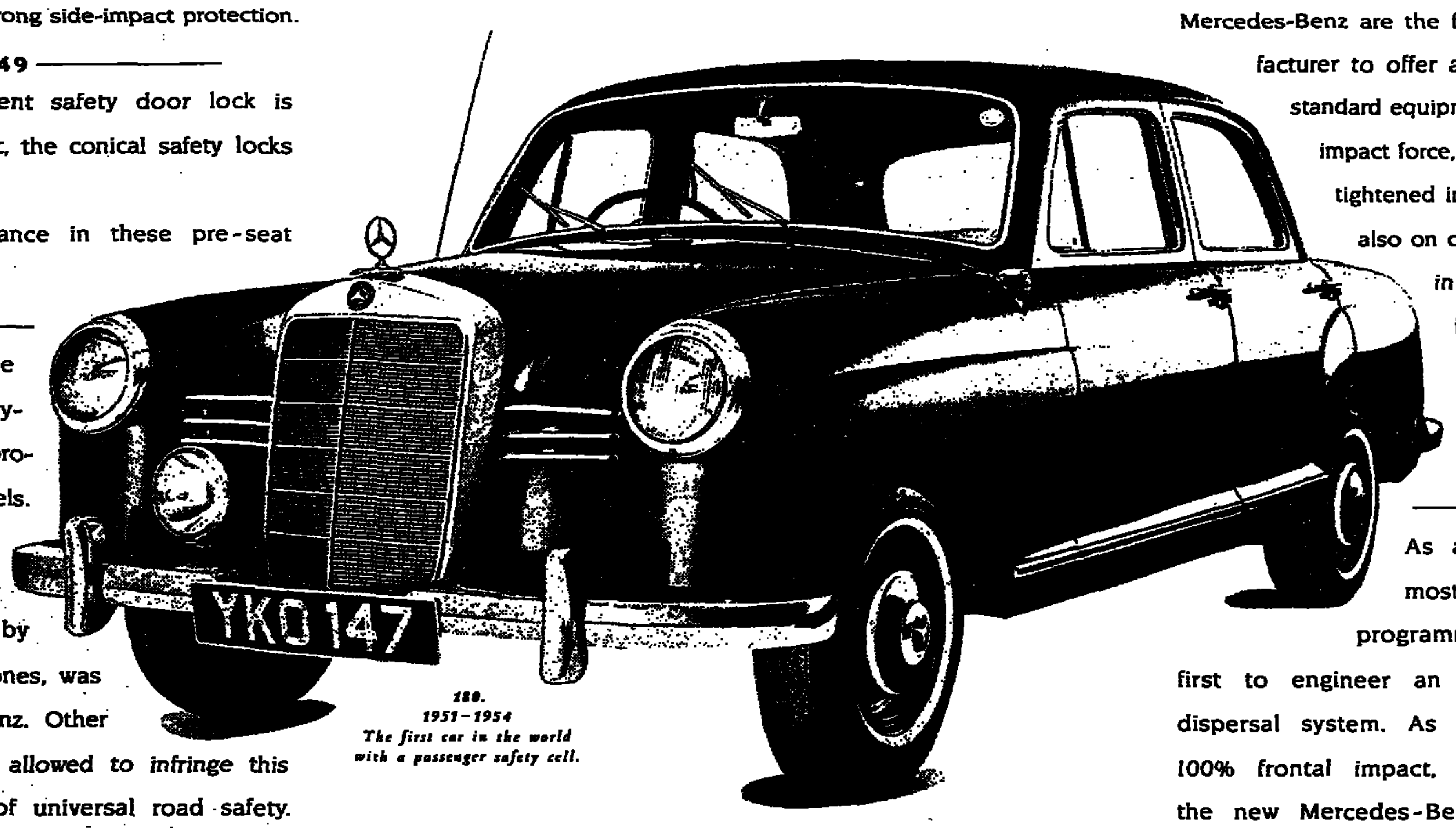
1949

The Mercedes-Benz patent safety door lock is introduced. In an accident, the conical safety locks cannot burst open or jam.

An important advance in these pre-seat belt days.

1951

Mercedes-Benz develop the world's first safety body-shell. Later to go into production in the 180 models. The now standard practice of placing passengers in a rigid cell protected by front and rear crumple zones, was patented by Mercedes-Benz. Other manufacturers have been allowed to infringe this patent in the interests of universal road safety.



180.
1951–1954
The first car in the world with a passenger safety cell.

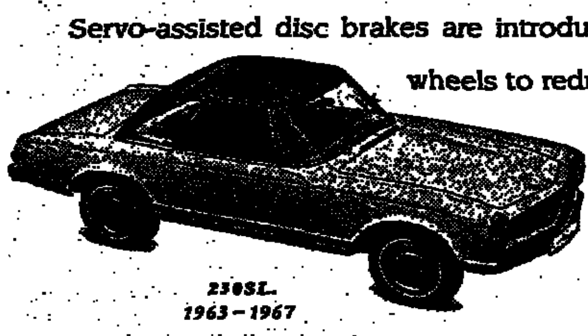
1959

First systematic crash and roll-over test programme. In one year 80 cars are destroyed so that safety problems can be more thoroughly investigated.

Mercedes-Benz introduce the first production cars to be equipped with padded interior surfaces and flexible components for additional safety: large, padded steering wheel boss; a padded, yielding dashboard; flexible control switches and levers; padded sun visors, window sills and arm rests; flexible window handles; recessed door handles; rear-view mirror that detaches on impact.

1961

Servo-assisted disc brakes are introduced on all four wheels to reduce driver effort in everyday as well as emergency braking.



230SL.
1963–1967

1967

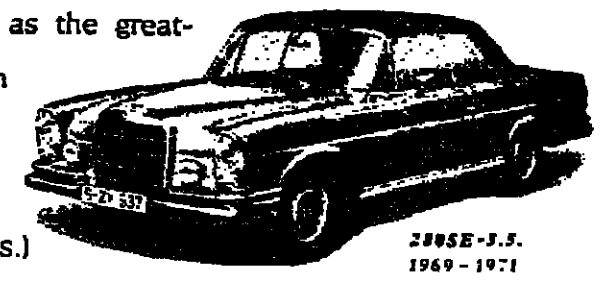
Mercedes-Benz safety steering assembly. It yields progressively on impact to reduce the possibility of driver injury. The main advantages are: a large padded steering wheel boss, impact absorber, collapsible telescopic steering column and a steering box sited well behind the front suspension.

1968

Front head-restraints are introduced to lessen the risk of 'whip-lash' neck injuries.

1970

Announcement of the anti-lock braking system (ABS) which prevents the wheels locking under emergency braking. The vehicle does not break away and can still be steered around obstacles. (The principle is now accepted as the greatest advance in braking since the invention of disc brakes.)



280SE-3.5.
1969–1971

1973

Front seatbelts and head restraints become standard equipment on all Mercedes-Benz cars.

1979

ABS is introduced on production models. Seatbelts are made standard fitting on all four seats (in advance of U.K. legislation).

1981

Mercedes-Benz are the first and still the only manufacturer to offer automatic belt-tensioners as standard equipment (above a pre-determined impact force, the seat-belt is electronically tightened in milliseconds). The airbag is also on offer for the first time (stowed in the steering wheel boss, it inflates in 25 milliseconds on serious impact, to cushion the driver's head and chest).

1983

As a result of the industry's most exhaustive crash testing programme, Mercedes-Benz are first to engineer an improved impact energy dispersal system. As well as coping with the 100% frontal impact, demanded by legislation, the new Mercedes-Benz design directs impact energy away from the car's occupants in the event of off-set frontal collisions.

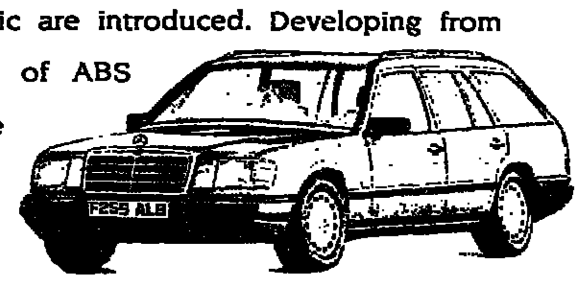
Mercedes-Benz develop brake and clutch pedals that swing away from the driver's feet in the event of a major accident.

1987

ASD (automatic locking differential) is introduced. Under conditions where traction varies between the right and left driven wheels, causing one to spin uselessly, the ASD system automatically transfers power to the wheel with better traction. The device is designed to operate at speeds up to approximately 19 mph, to aid initial acceleration and manoeuvrability in difficult conditions. However, the ASD warning light alerts the driver to poor traction conditions regardless of vehicle speed.

1988

ASR and 4-Matic are introduced. Developing from the technology of ABS and ASD, these systems give the driver additional support in hazardous road conditions. ASR (acceleration skid control) electronically monitors wheel speed and automatically applies the brake and adjusts the throttle opening so the driving wheels cannot lose their grip under hard acceleration. 4-Matic (automatically engaging four-wheel drive) electronically monitors wheel slip and steering angle, progressively bringing in front wheel drive, a locking front to rear differential and finally, a rear differential lock as conditions dictate.



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Engineered Like No Other Car In The World.

Directors' pay up average 14%, survey shows

By Michael Skapinker

THE PAY of British directors and senior managers is rising far more quickly than it was last year, according to a survey published yesterday by Charterhouse, the merchant banking and financial services group.

The survey shows that median basic pay of directors is up by 14.3 per cent. At the time of the last Charterhouse survey, in August 1988, directors' pay was increasing at a rate of 10.7 per cent. Median basic pay of senior managers below board level is up 11.1 per cent, compared with 8.3 per cent last August.

Pay for the upper quartile of directors has increased by 22.4 per cent, compared with the 15.6 per cent rise recorded last August. Pay for the upper quartile of senior managers is up by 15.4 per cent, compared with 12.5 per cent last August.

Charterhouse's twice-yearly list of the highest-paid chairman and directors shows that Sir Ralph Halpern, chairman of the Burton Group, has fallen back from first to sixth place, with remuneration of £996,000 in the last financial year.

First place is held by Mr Christopher Heath, managing director of Baring Securities, whose pay for 1987 was £1,339,219. He is followed by Lord Hanson, chairman of Hanson, on £1,239,000. Third and fourth places are held by the highest-paid directors of Robert Fleming Holdings and Anglo Leasing. Neither has been identified. Fifth place is held by Mr Tiny Rowland, chief executive of Lonrho.

Two Americans, Mr Richard Giordano, chairman of BOC, and Mr Robert Bauman, chairman of the Beecham Group, are 11th and 13th respectively. Their pay is exceeded, however, by that of a new addition to the list – their compatriot Mr Mitchell Fromstein, of Blue Arrow, who was paid £910,000 in the last financial year.


Christopher Heath: holds first place with £1.3m

Mr Fromstein was dismissed as the head of Blue Arrow's Manpower subsidiary in December last year. He returned as Blue Arrow's group chief executive in January after a boardroom coup in which Mr Tony Berry, the chairman, was stripped of his executive duties.

Charterhouse says its list, based on company reports, might not be comprehensive.

Charterhouse Top Management Remuneration UK 1988-89, from Monks Publications, Debden Green, Saffron Walden, Essex CB11 3LX. October 1988 edition and March 1989 supplement £200.

Nirex places its hopes 1,000 metres below ground

David Fishlock on plans to build "warehouses" at Sellafield and Dounreay for dangerous N-waste

NIREX, the Nuclear Industry Radioactive Waste Executive, confirmed yesterday that it had advised the Government that Britain's nuclear waste dump could be at Sellafield in Cumbria or Dounreay in Caithness.

It plans geological exploration to see whether the sites are suitable as repositories for solid low-level and intermediate-level radioactive wastes. The inquiries will take 12 to 18 months.

UK Nirex, owned jointly by the main components of the nuclear industry, is responsible for disposing of the main bulk of nuclear waste.

That includes waste from nuclear power and also from assorted medical, scientific and defence activities, and industrial operations outside the nuclear industry.

The repository it wants will cost about £1bn. It will accommodate 1.3m cubic metres of radioactive waste over the next 40 years – equal to the volume of coal excavated in Britain in six days. That is 1.1 per cent of the volume of toxic waste Britain generates, Nirex estimates.

The Nirex repository will be a "warehouse" perhaps 1,000 metres or more below ground or beneath the sea bed just offshore. The Government has decreed that it shall not expose the public to a radiation dose greater than 0.1 milliSievert a year.

For comparison, each Briton receives 25 times as much radiation a year on average, almost entirely from natural sources, mainly cosmic rays and radon gas. A frequent air traveller receives 29 times as much. People who live in radon-rich environments – in Cornwall and Devon, for instance – may receive as big a dose as 100 mSv a year, 1,000 times as much.

To keep public exposure from the waste down to 0.1 mSv, Nirex proposes a multi-barrier engineering approach combining artificial and natural barriers.

The main barrier will be the depth of rock beneath which it is stored. But several further barriers will safeguard against accident.

The waste will be encapsulated in cement or bitumen, in steel drums, which will be packed into a steel-and-concrete overpack. The overpack will be stacked in the concrete-lined vault. The concepts embodied in such a repository are being tested in several places in Europe, such as Sweden, which has already excavated a repository 60 metres deep, 1 km offshore from its Forsmark nuclear station north of Stockholm. Nirex itself spends about £5m a year on safety research.

In a national consultation exercise during 1988, Nirex identified two sites that not only offer promising geology but where there is some local enthusiasm for hosting such a repository.

At Sellafield and Dounreay, nuclear activities already dominate the local economy. Sellafield is Britain's biggest nuclear industrial site, employing about 11,000 people either directly by British Nuclear Fuels or as sub-contractors.

It has its own disposal site for solid, weakly radioactive wastes at Drigg, 6 km away, where it also stores the wastes from British hospitals and universities. Drigg receives about 35,000 cubic metres of waste a year from all over the country.

The more radioactive wastes produced by Sellafield are being stored on the factory site.

Ideally, BNFL would like to have an underground repository directly accessible from its Sellafield site into which the encapsulated wastes are taken. Such a repository would store most of the radioactive waste, leaving only the kind already being stored at Drigg, and the most highly radioactive effluent from its fuel reprocessing operation.

This effluent is so intensely radioactive that it also radiates heat. But BNFL plans to start solidifying it next year, and will then store the ingots in concrete cells until they no longer emit heat – perhaps 100 years. Storing the glass ingots will cost BNFL about £1,000 per cubic metre a year.

When cool, the ingots will be reclassified as intermediate-level waste, suitable for disposal in the kind of subterranean repository Nirex proposes for other wastes.

The volume of highly radioactive effluent currently stored at Sellafield is small compared with other categories of radioactive waste – 100 cubic metres.

By the year 2000, when a repository might be nearing completion, Sellafield expects to have accumulated 1,400 cubic metres of high-level waste, 80,000 cubic metres of intermediate-level waste, and 500,000 cubic metres of low-level waste.

For BNFL, an underground repository would mean less exposure of Sellafield employees to radiation from the surface storage and maintenance of nuclear waste. At present they receive double the national average dose – 5 mSv a year.

Such a project also affords another attraction locally, for it could provide an important follow-on project as the current £5bn investment programme at Sellafield begins to run down in the mid-1990s.

But Nirex also wants to explore Dounreay, not least as an alternative in case it runs into geological difficulties at Sellafield. For Dounreay, a repository affords the only prospect of a new nuclear role after the rundown of its fast reactor development programme in the 1990s. But Nirex is in no doubt that a Dounreay repository would present much greater waste transport difficulties than Sellafield.

MR CHRISTOPHER HARDING, chairman of British Nuclear Fuels, said yesterday he wanted the industry to continue with its open-door policy so that people would be able to see for themselves how safely nuclear waste could be managed, writes Ian Hamilton Fazey.

Whether waste was eventually stored at Sellafield or Dounreay, he hoped that it would be possible for people to visit "and see there are no problems associated with it. In theory, there is no reason why that should not happen."

Mr Harding has already proved the value of such public relations exercises in the three years since he became BNFL chairman. He took over when the Government-owned company was in trouble over alleged radioactive contamination of Sellafield's beach, and its public esteem was low. He disclosed yesterday that BNFL's PR budget had since doubled to £9m a year, a quarter of it going on television advertising to promote visits to Sellafield by the public.

A £5m visitors centre, which costs £400,000 a year to run, explains the nuclear industry in detail, and there are bus tours round the site. Surveys of visitors have shown 56 per cent favourably disposed to the industry when they arrive, a proportion that rises to 75 per cent by the time they have had a look round.

Mr Harding thinks that a similar approach to waste management might produce similar results. He said that BNFL takes monthly opinion polls on views of the industry. Support dropped from 55 per cent to 41 per cent after Chernobyl, picked up to 56 per cent in June 1987 but fell back again to 43 per cent last autumn as green issues took a higher profile.

In December the poll showed 51 per cent support.

Funds boost of £5m for hi-tech start-ups

By Charles Batchelor

A £5M SEED capital fund to invest in technology-based start-up companies has been established by Korda and Company, a business and technology consultancy group.

The Korda Seed Capital Fund plans to invest its money in between 10 and 12 start-up companies, mostly in the UK, over the next five years in the fields of health care and biotechnology, advanced materials and telecommunications and information technology.

Korda has raised £4m from investors including Standard Life, Equity & Law, Life Association of Scotland, Sun Life Assurance of Canada, Caledonia Investments and from its own resources. It hopes to place the remaining £1m with other investors, including US pension funds, by June.

The new fund represents a substantial addition to the amount of seed capital available in Britain. Finance for the early stage technology-based company is scarce, and Lord Young, Trade Secretary, earlier this month urged venture capitalists and bankers to channel more funds their way.

Mr Alex Korda, chairman of Korda and Company, said: "In our experience, seed investment is not significantly riskier than any other early stage venture investment, but a lot of time and energy must be dedicated to building the new ventures during the seed stage."

Korda, a six-year-old consultancy, provides technology advice to large non-technology companies as well as advising and raising finance for small technology start-ups. It has backed six start-ups including Xenova, a drug manufacturer, Satellite Media Services, which provides satellite networks, and Biotal and Archaeus, both biotechnology companies.

Korda is owned by the partners in SRU, a market research and strategic business consultancy group, and by its own directors and staff.

Oxford plans to attract companies to science park

By David Thomas, Education Correspondent

OXFORD UNIVERSITY plans to attract research-based companies to a 35-acre research park it wants to create on the outskirts of the city.

The announcement means that Oxford is belatedly joining the trend for university-based science parks, which has helped to attract modern industry to university centres such as Cambridge.

Although Oxford University has received about half a dozen proposals for such a project in recent years, it has only now decided to submit a planning application for a research park on a 35-acre site it owns, a mile and a half from the centre of town.

The university is selling the site for a multi-million-pound sum to developers Blue Lamp Properties, a joint venture between Tarmac Properties and Maidenhead-based Shorevale, a subsidiary of property developers Rosehaugh.

Blue Lamp will develop the site and then lease or sell plots to incoming companies, but the university will retain certain controls over the type of company allowed on to the site.

The university authorities said yesterday they would ensure that only research-based companies would move into the park. They plan to foster close links between Oxford's laboratories and the enterprises on the park, which they believe will include companies spun off from the university's own research.

Given the need to win planning permission, it will be at least a year before companies start to move to the park.

University historians lose 1 in 10 posts to cash cuts

By David Thomas, Education Correspondent

MORE THAN one post in 10 has disappeared from the history departments of British universities during the 1980s, a survey has found.

The survey, by the History at the Universities Defence Group, is the latest to highlight the impact of the financial squeeze on universities.

It showed that the number of history posts has fallen by 11.5 per cent to 964 since 1981.

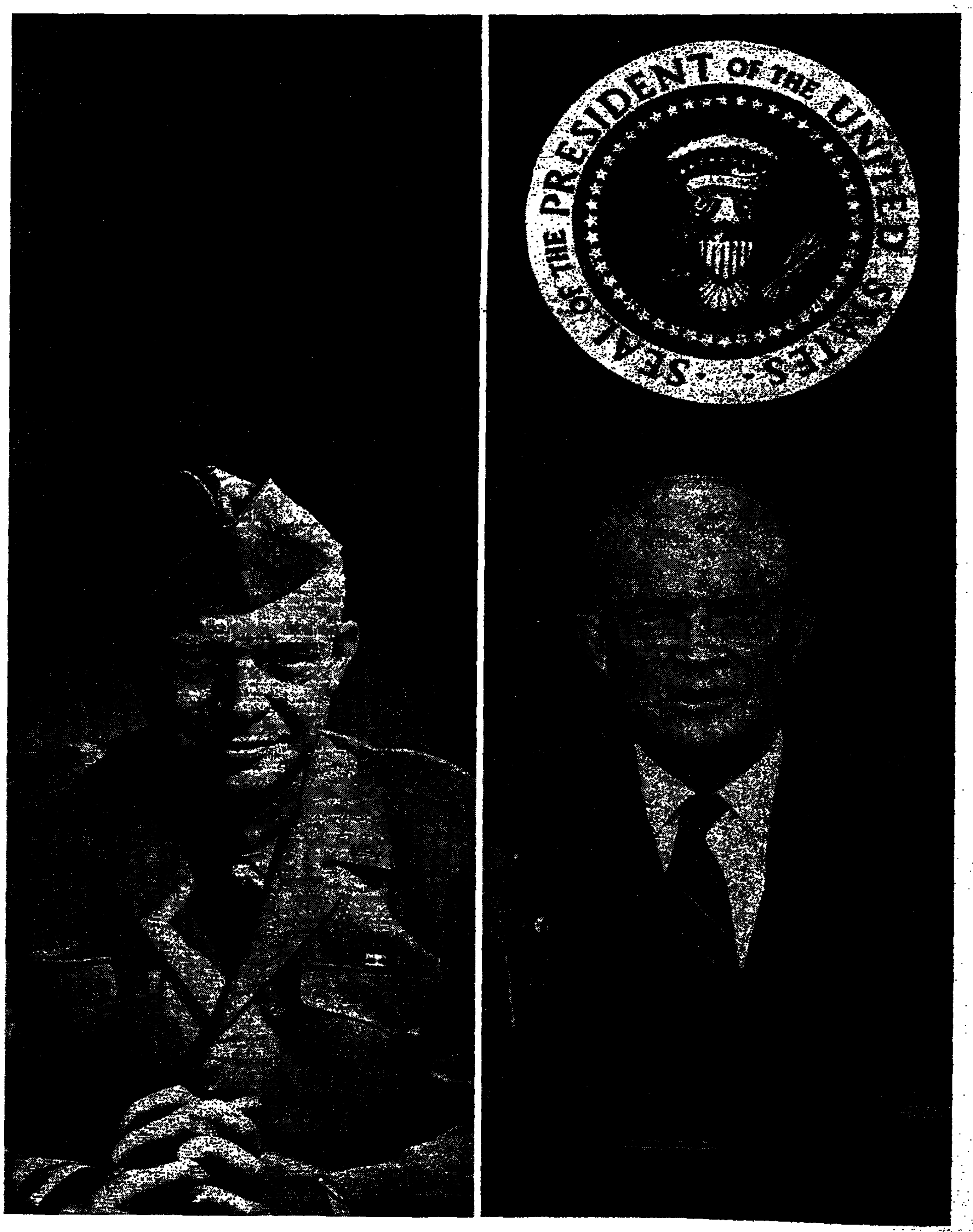
Only half the vacancies have been filled, with the result that there are now only 12 professional historians in the universities aged under 30, equivalent to 1.2 per cent of the total.

Students have suffered from the cuts through fewer courses, narrower syllabuses and worsening staff-student ratios, the survey disclosed.

In addition, the number of people applying for graduate studentships in history has fallen by a quarter in the past five years.

The defence group, based at the history department of Southampton University, urged the Government to provide more funds to allow universities to recruit young staff.

● Overcoming the shortage of maths and physics teachers would do more than anything else to help the UK to secure an adequate supply of engineers and technicians, the Engineering Council said yesterday in evidence to the Commons Education Committee.



UK NEWS

Military airfields 'should be used for charter flights'

By Michael Donne, Aerospace Correspondent

CHARTER flights should use military airfields in south-east England, including Manston, Bedford, Greenham Common, Brize Norton and Lyneham, the Commons Select Committee on Air Traffic Control Safety recommended yesterday.

That would be in addition to making more use of existing civil airports, such as Lydd, Bournemouth and Southampton, and trying to spread the load further into regional airports, the committee's report said.

Airports such as Birmingham and Glasgow should be regarded as key international airports for the UK to improve their prospects and investment opportunities.

As expected, the committee recommended that the possibility of a second runway at Gatwick should be explored. It did not rule out further expansion at Stansted towards the end of this century, and said the possibility of expanding Luton beyond the current maximum of 5m passengers a year should be studied.

Where aircraft can fly at night without unduly disturbing the sleep of populations round airports, they should be permitted to do so, the report said.

The bulk of the committee's 47 main recommendations were directed towards improving the overall air traffic control system and air travel safety. It said the Government should provide without delay whatever financial support was needed to remove deficiencies in the air traffic control system.

The Guild of Air Traffic Control Officers urged that all the recommendations of the Select Committee should be implemented "as soon as possible." The guild said it hoped the committee's report would result "in a new realisation of the problems faced by air traffic controllers," and urged the Government to take "all steps necessary to minimise delays and ensure the safety of air passengers."

It also gave a warning that passengers using British airports would suffer worse delays this summer than in previous years. They would arise partly because of a staffing shortage of up to 25 per cent.

The committee's recommendations include the need to increase staff levels, improve training and pay, and improve communications between controllers and the Civil Aviation Authority.

Commenting on the suggestion of a second runway at Gatwick, Mr Mike King, managing director of the Airports Division of BAA, formerly the British Airports Authority, said that "in our view the need for another runway in the south-east will not arise until we are into the next century."

The committee, however, strongly disagrees, arguing that it believes the planning process should start now and that the right decisions for the long-term future of British civil aviation are more important than individual profits.

BAA said it would be impossible to find a site for a second runway at Gatwick without "bulldozing people's houses." The Gatwick Area Conservation Campaign, representing residents round the airport, described the committee's proposals as "idiotic."

The Civil Aviation Authority said it retained "an open mind" on the committee's recommendation that its activities should be split, with the air traffic control operations being hived off into a separate independent body. But Air Marshal Sir Thomas Stonor, the director of the National Air Traffic Services, said that in the short term such a move would "do nothing to solve the problems."

Shopping centre plan for Mayfair to go ahead

By Paul Cheeseright, Property Correspondent

MR NICHOLAS Ridley, the Environment Secretary, has overridden objections by Westminster City Council and granted planning consent for a £80m shopping centre in the heart of Mayfair, the expensive central London district.

The centre will be developed by Neal House Investments and financed by the Co-operative Insurance Society which, with the City Corporation of London, is joint owner of the site. Co-operative Insurance, which owns 20 shopping centres, has a controlling stake in Neal House.

Plans for the scheme on one acre between Brook Street, New Bond Street, Avery Row and Lancashire Court and thus close to one of London's high fashion shopping areas, have been through two public inquiries.

Mr Ridley's decision to permit the scheme to go ahead brings to an end eight years of dispute and throws out alternative ideas for the site advanced by Westminster City Council. Mr Ridley awarded Co-operative Insurance costs of the second appeal, which took place in mid 1988.

Independent legal commission urged

By Raymond Hughes, Law Courts Correspondent

THE LAW Society is proposing the establishment of a legal affairs commission, wholly independent of government, to oversee the legal profession and the provision of legal services.

The commission is the Law Society's counter-proposal to the controversial Lord Chancellor's advisory committee proposed by Lord Mackay, the Lord Chancellor.

Lord Mackay's suggestion of a committee to advise on professional standards, codes of conduct and the issue of advocacy certificates has led to complaints of interference with lawyers' independence.

The Law Society's view is that Lord Mackay's proposal takes regulation too far.

It said yesterday that, given the extremely limited criticisms of the profession's existing codes of conduct, it would seem to be "taking a sledgehammer to crack a nut" to suggest that the Lord Chancellor should propose for parliamentary approval the principles that should govern the codes, and that an advisory committee should have to endorse them.

The Law Society's view is that these are matters for the profession, not for Government. It suggests that the legal affairs commission would inform the Government and the profession of gaps in the provision of legal services, advise the profession on the improvement of training and standards, advise the Government on which new organisations should be allowed to take on legal work and comment on the efficiency of the courts.

The proposal forms part of the provisional views of the Law Society's governing council on the green paper, drafted after discussions with its 55,000 members in England and Wales. The society's definitive response is expected late next month.

Yesterday Mr David Ward, the Law Society's vice-president, said it was proposed that the commission should include lawyers and laymen, some nominated by the Government and others by the profession.

Announcing the Law Society's provisional views in a document entitled Striking the Balance, Mr Ward reiterated the "broad welcome" the society first gave Lord Mackay's proposals but said that some were ill thought out.

The Law Society says estate agencies, now largely taken over by financial institutions, should not be allowed to undertake conveyancing. It feels the public is now virtually deprived of independent financial advice, and independent legal advice must not go the same way.

There should be an independent inquiry into the activities of institutions and estate agencies selling financial services to house buyers; estate agents should be regulated by a statutory code, with penalties for breach; stricter controls over the sale of mortgages should include a statutory cooling-off period to enable borrowers to take unbiased advice; all insurance commissions receivable by an estate agency or lending institution, whether tied or independent, should be disclosed.

The society is not in favour of solicitors being part of multi-disciplinary partnerships, which, it says, could not give the public independent legal advice.

Curbing of European anti-dumping policies proposed

By Guy de Jonquières, International Business Editor

THE BRITISH Government should press for radical reform of the European Community's anti-dumping policy, to ensure that the policy is subject to stricter controls, the free-market Adam Smith Institute says in a report.

The report says anti-dumping procedures have become the European Commission's "chief protectionist weapon." It accuses Brussels of deliberately distorting the procedures and of using them as a selective import safeguard.

It says dumping complaints by European producers should be screened by an independent body before they are taken up by the commission. Producers whose complaints failed to pass such scrutiny should be subject to financial penalties.

The report says that changes are needed in the calculation of EC anti-dumping penalties to remove what it considers an in-built bias.

It calls on the UK to withdraw from the Multi-Fibre Arrangement on textiles, to end all voluntary import restraints and to set up an office to examine the UK impact of all EC trade policies.

Bricks in the Wall. Daniel Moylan. Adam Smith Institute, 23 Great Smith Street, London SW1. £9.

Court challenge to US bonds tax ruling

By Raymond Hughes, Law Courts Correspondent

THE INLAND Revenue's tax treatment of the US bond investments of Lloyd's of London managing agents, which look after the affairs of the insurance market's syndicates, is to be challenged in the High Court on May 2.

Last October the Revenue decided the syndicates' redemption profits would be taxed as income instead of capital gains.

Thirty-four applications for judicial review of the decision have been made by 57 underwriting agencies. Five representative applications have been selected for hearing in May.

Yesterday Mr Charles Flint, counsel for the firms, told Mr Justice Mann it was envisaged that the court's ruling then would dispose of all the applications.

The lead firms in the five cases are MFK Underwriting Agencies, R.J. Kiln & Company, D.P. Mann Underwriting Agency, Pieri Underwriting Agencies and Merrett Underwriting Agency Management.

About \$2.5bn (£1.4bn) of the \$9bn in the Lloyd's US trust funds are held in investments known as Sallie Maes (Student Loan Marketing Association), the subject of the tax dispute.

The Revenue has said the new system will apply as from the 1985 account and that the tax liability for that year will be about £15m.

However, the syndicates have closed their 1985 accounts and distributed profits to members on the previous basis under which redemption profits were subject to capital gains tax, and, because of indexed CGT exemptions, attracted little or no tax.

The agents, who say that the tax change would involve them in reclaiming tax from members, will ask the court to quash the Revenue's decision.

Computer spending 'crucial for future'

By Maggie Urry

INVESTMENT in technology is crucial to the long-term future of retailing, according to Mr Richard Weir, director general of the Retail Consortium. He put forward his view when introducing the second day of the Financial Times conference entitled Retailing in the 1990s: the Role of Technology.

Mr Weir said retailing was often perceived as being a short-term activity, but that, he said, was wrong. Retailing was a capital-intensive industry and one of the main areas of investment was technology.

Other speakers took up the theme of how technology can benefit retailers. Mr Desmond Pitcher, group chief executive of the Littlewoods Organisation, discussed how technology affected home shopping. The group's home shopping activities have an annual turnover of £1bn.

He said that two years ago the company had made a breakthrough in its ordering systems. As a result, customers could telephone with any query on an order – from stock availability to delivery details – and be given an answer, as all the data had been put on one system.

Mr Pitcher said that in the future new forms of electronic ordering could be envisaged – such as ordering from television via cable or satellite – but those would succeed only if the customer perceived the new system as better than the old.

Mr Jeremy Soper, divisional director of retail sales at W. H. Smith, the newsagent, bookseller and stationer, described the benefits the chain had derived from installing electronic point of sale equipment. The data available on terminals had made the group's manual stock control system obsolete.

Now re-ordering was undertaken on computer and had resulted in better availability of stock, lower stock levels, savings of staff time, better range management and warehouse replenishment.

Turning to technology in the distribution chain, Mr Gareth Williams, divisional director in charge of physical distribution and retail systems for Marks and Spencer, the chain store group, said that in these competitive times greater efficiency and better service to customers were vital. Mr Williams quoted statistics from the Institute of Distribution and Logistics Management saying that on average distribution costs had fallen from 17 per cent of sale in 1980 to 7.5 per cent in 1987.

Mr Robert Bramley, head of corporate management services at Allied Breweries, described how electronic point of sale systems could help in the company's pubs.

Direct product profitability (DPP) was raised by Mr Paul Fuller, of Touche Ross, the management consultancy. Such a system allows retailers

FT CONFERENCE
RETAILING IN THE 90s

to establish the contribution each product makes to net profits, rather than sales or gross profits. He said that a small movement in the net margin could have a big effect on a company's bottom line. The use of DPP allowed retailers to decide which lines to stock and how much space to allocate to them on the shelves.

Mr Len Fletcher, retail systems director of NCR, a supplier of technology, outlined how technology could help retailers. Looking to the future, he described "expert systems." These would analyse information and present suggested solutions to managers – freeing them to spend more time on strategic issues.

Mr Ian Simons, a senior vice president of MPSI Systems, a consultancy group, discussed the use of mapping techniques to gain a competitive edge by helping retailers choose the location of stores. He said: "The more convenient a retailer is to his customers, the better his chance of selling."

UK NEWS

Transport Secretary denies leaking air crash secrets to the press

Channon defends Lockerbie record

By Philip Stephens, Political Editor

MR PAUL CHANNON, the Transport Secretary, yesterday delivered a strong defence of his handling of aviation security before and after last December's bombing of a Pan American airliner over Lockerbie in Scotland.

In an emergency House of Commons debate on the issue forced by Mr Neil Kinnock, the leader of the opposition Labour Party, Mr Channon also sought to rebut press reports that he had leaked sensitive information about the progress of the investigation into the attack.

Flanked by Mrs Margaret Thatcher and other senior cabinet ministers, Mr Channon indicated that he was determined to resist calls from the Labour Party to resign over the affair.

The Prime Minister underlined her support for the Transport Secretary, telling the House of Commons earlier that he had been the victim of totally unfair accusations by "lesser men."

However, both Labour and the Social and Liberal Democrats said they were dissatisfied with Mr Channon's answers and, specifically, with his refusal to give details of his discussions last week with journalists on the progress of the inquiry.

Mr John Prescott, Labour's transport spokesman, said later that Mr Channon had failed to answer a number of key questions, including why it had taken his department 10 weeks to send out photographs of the type of bomb which destroyed the aircraft. Other governments had done so within days and the Transport Secretary was "guilty as charged," he said.

The Government's concern to end what ministers feared was becoming a politically damaging controversy was reflected in a carefully organised and noisy display of support for Mr Channon by Conservative backbench MPs.

They responded to Mr Kinnock's demand for further information with calls for the resignation of Mr Prescott, who has led the opposition attack on the Government's handling of the issue.

In a lengthy statement delivered to a packed and frequently rowdy Commons, Mr Channon gave a detailed chronology of the Government's response to the affair, from its receipt of initial warnings in November from the West German and US authorities about the type of bomb to the series of measures taken after the December 21 disaster.

In particular, he sought to allay concerns about a three-week delay between December and early January in sending out a circular letter and photographs of the type of radio cassette bomb which eventually proved to be the cause of the explosion.

Mr Channon said that it added little to the detailed information that had already been sent by his department in a telex to UK airlines and airports more than a month earlier. Pan Am had received the same information from the US authorities.

Mr John Wakeham, Leader of the Commons, said yesterday the delay in sending out the circular letter was "much to be regretted".

In a letter to Mr Alfred Morris, a Labour MP, Mr Wakeham added, however, that the supplementary warning could not have been sent out by facsimile because of the purpose was to enclose colour photographs.

Mr Channon declined to discuss the details of a meeting last week with political journalists at which he was alleged to have leaked sensitive details surrounding the investigation. He said, however, that he was "astonished" by reports that the identity of the bombers had been discovered.

His knowledge had been limited to that released last week by Lord Fraser, the Lord Advocate for Scotland. Lord Fraser said that good progress had been made in the investigation but the identity of those responsible was not known.


Channon: detailed statement to Parliament

Bank issues default notices to two UK local authorities

By Norma Cohen

SALOMON BROTHERS, the US-based investment bank, has issued notices of default to two local authorities withholding payments due under interest rate swap and options contracts and said it was considering legal action to force them to pay.

If these succeeded, so-called cross default clauses in the authorities' other loan agreements could be triggered, forcing them into the impossible situation of having to repay all their debts at once.

Even if the clauses are not triggered, the existence of outstanding default claims against them could make it difficult for them to raise funds in the markets needed for their normal course of business.

The two authorities are Hammersmith and Fulham Council in west London, which failed to make a two payments totalling £165,000 to Salomon on March 15 and March 20, and Blackburn Council, Lancashire, which failed to make a £32,000 payment to Salomon last week.

In addition, Harlow Council in Essex has been told it too will receive a notice of default when it fails to make a £120,000 payment to Salomon Brothers due today.

Hammersmith Council said yesterday it still intended to meet its contractual obligations and was holding funds intended for Salomon Brothers in a special bank account.

"We don't believe we've defaulted. We've had to suspend payments," it said.

Salomon's moves make it the first bank counterparty involved in the controversial local authority deals to try to force local councils to produce payments ahead of an expected court hearing to decide whether the councils had the legal authority to enter into the swap and options contracts.

Other bank counterparties so far appear willing to follow the British Bankers Association recommendation that its members take no legal action until the legality of Hammersmith's activities has been tested.

Salomon said yesterday: "If anyone – a local authority or anyone else – fails to pay us a sum due promptly, we would send them a notice that they are in default. Then we would feel free to pursue any legal remedies that are available to us."

The bank said its overall exposure to the local authority swaps market was very small. "Should every existing local authority fail, the total will not be material to Salomon Brothers."

IRA killings highlight quality of its intelligence

Kieran Cooke considers the serious questions raised by the shooting of two RUC officers in Armagh

AT ABOUT 3pm on Monday, Chief Superintendent Harry Breen and Superintendent Bob Buchanan of the Royal Ulster Constabulary finished a meeting with representatives of the Garda, the Irish police force, in the town of Dundalk, about six miles over the border in the Irish Republic.

It had been a quickly arranged meeting, mainly to discuss the increasingly frequent IRA attacks on the nearby main Dublin-Belfast railway line. Less than an hour later, the two unarmed RUC men were gunned down by the IRA as they drove across the border on a minor road near Jonesborough.

The two RUC officers, the most senior to be killed in more than 20 years of "the Troubles" in Northern Ireland, met their deaths less than half a mile from the railway bridge which the IRA had targeted for its recent bombing campaign.

South Armagh, the area where these recent killings took place, was dubbed "bandit country" by Mr Roy Mason, a former Secretary of State in Northern Ireland. The area has long been an IRA stronghold.

Its maze of cross-border, mostly unapproved roads, its undulating terrain dotted with many abandoned farmhouses and sheds, make it ideal terrorist country. Cross-border smuggling is South Armagh's main industry.

Questions will be asked as to why the two RUC men were travelling without an armed escort in such dangerous country. Security forces in South Armagh usually only travel by helicopter.

Questions will also be asked as to why the shootings were not detected by the security forces. There are heavily fortified army posts near the scene of the IRA ambush. These are equipped with high-technology surveillance devices. Yet the first indication of the killings the security forces apparently had was an IRA phone call.

The answer to these questions is likely to be the subject of long inquiries on both sides of the border.

Perhaps more seriously, there have been hints of a "mole", or spy sympathetic to the IRA in the ranks of the Garda. The more hard-line Unionist politicians bitterly opposed to any North-South co-operation will doubtless say that when senior policemen are gunned down within a few yards of the border, cross-border surveillance is clearly not working.

That ignores the fact that cross-border liaison between the RUC and the Garda has vastly improved since the signing of the Anglo-Irish Agreement in 1985.

Sir John Hermon, the Chief Constable of the RUC, talked of the "close and improving relationship" between the RUC and the Garda in his recently released annual report. The two forces regularly swap intelligence information. Until recently, IRA activity in the border areas, particularly in South Armagh, had been on the decline.

The theory has been bitterly attacked by the Garda, the RUC and many politicians. The Garda believe that the murdered men were probably followed by the IRA from their police HQ in Armagh.

Mr Seamus Mallon, deputy leader of the mainly Roman Catholic Social Democratic and Labour Party and MP for the South Armagh area, said the IRA had recently shown the "remarkable level" of its intelligence. "It is the way the IRA can piece together the movements of people which is the most frightening thing," Mr Mallon said.

Last year the IRA blew up six soldiers in the garrison town of Lisburn and another eight in a bus bomb near Omagh. "In both these cases the IRA, as a result of very painstaking intelligence and observations, was able to track down people they did not know, faces they did not recognise, names they did not know," Mr Mallon said.

The RUC men would have been well known to the IRA and presented a relatively easy target. Two years ago Chief Supt Breen was involved in the operation at Loughall in County Armagh in which eight IRA men and a civilian were shot dead by the SAS.

Mr Mallon feels that increasing the security presence in the South Armagh area is not the answer. "You have already got the heaviest saturation of police and army in this area in Western Europe. You have 21 army installations in this part of South Armagh. I think it boils down to a cat-and-mouse game between the security forces intelligence and that of the IRA."

The sophistication of IRA violence in South Armagh has been shown before. Two years ago Mr Justice Gibson, Northern Ireland's Chief Justice, and his wife were killed by an IRA bomb as they drove along the main Dublin-Belfast road.

The IRA will see these latest killings as a significant military achievement after a series of bungled operations which have caused civilian deaths. But the grim statistics are that the deaths of RUC men Breen and Buchanan brings to 25 the number of people killed as a result of the violence in the province so far this year.

Irish and Ulster police to review security procedures

By Charles Hodgson in London, Kieran Cooke in Dublin and Our Belfast Correspondent

IRISH and Ulster police are to review security procedures for officers attending meetings on cross-border co-operation after the IRA murder of two Royal Ulster Constabulary superintendents returning from talks in the Republic on Monday.

The review, announced by Sir John Hermon, the RUC chief constable, is likely to cover the location and travel arrangements for future meetings as well as the need to ensure maximum secrecy.

Mr Tom King, Northern Ireland Secretary, told the House of Commons that a full investigation into the circumstances of the murder of the two senior RUC men was under way on both sides of the border.

Mr King warmly welcomed the assurance of fullest co-operation from Mr Charles Haughey, the Irish premier, in pursuing the terrorists and added that "such a deliberate attack on security co-operation . . . will only make us more determined to make that cooperation more effective."

Earlier, Mrs Margaret Thatcher, the British Prime Minister, told MPs that greater co-operation between the two police forces was essential to combat the IRA.

Mr King refused to comment on why the two officers had chosen an isolated route home or how they had been identified and ambushed by the IRA, but both Sir John and senior Irish police officers firmly rejected speculation that an informant in the Garda or the RUC might have tipped off the terrorists.

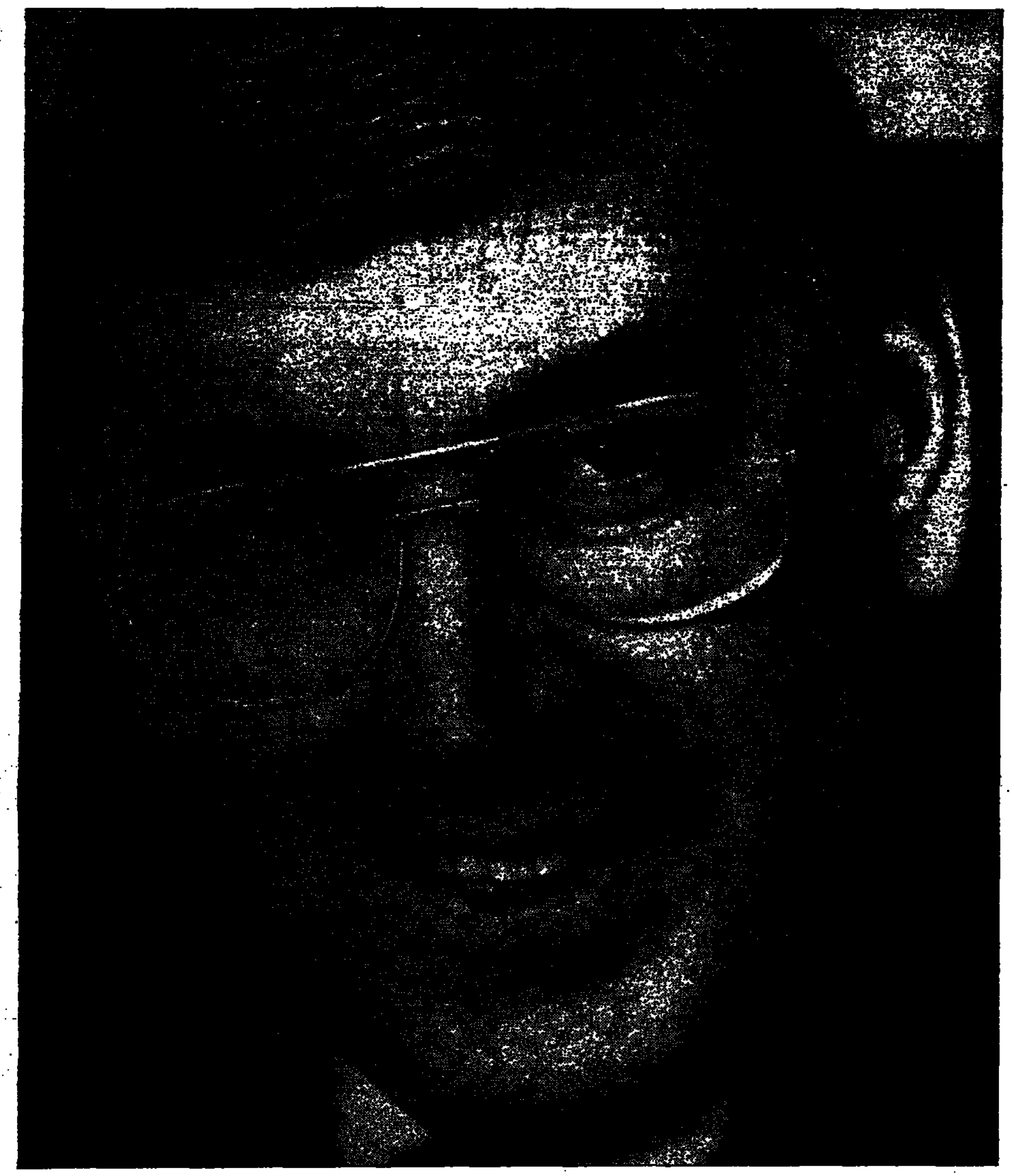
Sir John told a press conference in Belfast that the meeting between the two officers and their Irish counterparts had been set up at short notice and neither had discussed the route they were taking on the return journey with anyone. A more likely explanation for the ambush, suggested by officials in Belfast and Dublin, was that the men were tailed from either Armagh in the North or from a point on the southern side of the border in Dundalk, a staunchly nationalist town.

Cleaver on investment.

KENNETH FLEET TALKS TO TONY CLEAVER, CHIEF EXECUTIVE OF IBM UNITED KINGDOM LIMITED ABOUT TRAINING, ENTERPRISE AND INVESTMENT.

FLEET: *I think there is a feeling that IBM is unique in its approach to training and vocational education. Is that a fair statement?*

CLEAVER: I think we have always felt that our people are the key to our success and that therefore we should invest heavily in them.



We now have a highly developed and very structured approach in the sense that we set objectives for all our people in terms of training. For example, for managers, we expect them every year to have training, not only on the technical side of whatever their work happens to be, but also in people management.

"We have always felt our people are the key to our success."

We need people who can adapt to very different situations. It is not at all uncommon for somebody to join us from university to start maybe on the technical side, then to move to marketing, perhaps later to spend some time in one of the head office functions or even in the laboratory. There is a high degree of movement. Our people expect it but, of course, they also expect us to prepare them for the changes.

I don't think training is cheap, it is an investment. It is much more a question of management approach. We work very hard at the principle of retaining people who join us. Our average staff turnover is normally less than 4% and that includes all our employees from juniors right the way up to the Board. I think that gives us an economic advantage because, compared with a company with perhaps three times that staff turnover, we are making enormous savings from the continuity and the experience of the people that we have. What may seem expensive, the cost of this course, the cost of bringing this person up to speed in this area, is in fact very cheap compared with the alternative of seeking the skills, if they exist, in the open market.

"I think it is right above all because it will put the responsibility where it belongs."

FLEET: *Turning to the Training and Enterprise Councils which the government is going to set up, do you feel that this new framework is necessary?*

CLEAVER: I think that it is necessary, for a number of reasons: the pressures of technology, the pressures from the change in demography, fewer school leavers and therefore pressures on employees as a result of less people coming into the workforce and so on. But I think it is right above all because it will put, or should put, the training responsibility where it belongs, and by that I mean with the employer and at a local level, and those seem to me to be two very important characteristics.

I think if I were to be critical of employers in the past, and I am sure we may all deserve this criticism from time to time, it would be that we have not always been very good at specifying what our needs are. It seems to me that that's one of the responsibilities that will come with this approach.

"We need people who can adapt to very different situations."

FLEET: *So, the emphasis of the TECs being employer-led in your view is right, necessary and timely?*

CLEAVER: Yes, I believe it is. Obviously one would want to stress that it is employer-led but it does not mean employer-dominated or to the exclusion of the other constituencies who can add value. But I do think that ultimately it is the employer who is making the investment so the employer should be held accountable for the right training being given.

"I don't think training is cheap, it is an investment."

FLEET: *Are you equally enthusiastic about the notion of this being done at the local or regional level?*

CLEAVER: Yes, local problems need local solutions. The employer skill requirements vary significantly from area to area but so, of course, does the local situation with regard to unemployment. So does the local situation with regard to the level of skill that the people tend to have as they come out of school.

So, if the level of skill and the quality of education do vary, surely the important thing is to get the optimum approach for the local situation.

"Surely the important thing is to get the optimum approach for the local situation."

UK NEWS

Hail the Hackney: a passing trade

Rachel Johnson looks at Government plans for the London cab

THE TRADITIONAL London Hackney cab, as potent an image of Britain's capital as the red double-decker bus, seems set for a 20th century fight for survival.

Hackney carriages, licensed in London since 1694, enjoy the monopoly right to be 'hailed' from the pavement and their drivers pride themselves on passing a unique entry test on the capital's geography known as "the knowledge".

The Hackney has become both part of the British culture, and part of the language. The cab was named after the common horse which first pulled the carriage which grazed on Hackney pastures before going to the meat market at Smithfield hard by the City of London.

It was such a ubiquitous workhorse that it became a synonym for drudgery and the common-place and "hackneyed" entered the language. Many black cab drivers fear it is about to become a word only found in the history books.

The 15,000 London Hackney cab, or "black" cab, drivers are gearing up for a fight with the Government over plans to allow minicabs to compete freely in central London for the first time for 300 years.

Minicabs, which appeared in *the 1960s in London during* a flamboyant "taxi-war", cannot ply for hire by law and cannot be granted licences within central London.

Mr Michael Portillo, the Transport Minister, is expected to publish shortly a consultative document for reform of the cab trade. Many drivers fear it will mean the end of the road for the traditional hackney carriage.

The consultative document, which is expected to be followed by a White Paper on the taxi and car hire trades, will be the latest in a long series of legislation dealing with taxis.

The Transport Department in Whitehall insists that the review being carried out for Mr Portillo had not been completed. But taxi drivers are convinced that the consultative document will recommend sweeping changes to the present law. They think the Government regards "the knowledge" as a restrictive practice, and that taxis should be a more widely used and cheaper *back-up to the public transport* system.

The "knowledge" test is given by The Public Carriage Office, a civilian branch of the Metropolitan Police, which also issues licences, and checks cabbies' vehicles every three months. For the "knowledge" cabbies need to memorise 468 routes to pass, and it usually takes two to three years to earn a licence. Drivers of minicabs at present do not need to pass a knowledge exam similar to the 468 routes the licensed *cabbie has to memorise.*

If the drivers are right, the central thrust of the Government's proposals would be to allow minicab companies to apply for licences to operate within central London, including the right to tout for business.

Some provincial local authorities do insist on licensing minicabs, but the right to ply for hire on the streets remains exclusive to hackney carriages.

Both taxi drivers and minicab companies have been consulted by the Transport Department, which received more than 600 replies to its request for "trade input". Magazines such as *The Cab Driver and Taxi are full of* letters and articles by drivers gloomily contemplating the end of 300 years of "the best cab trade in the world".

Their editors predict that the taxi service will be completely deregulated, leading to a system like that in New York, regarded by the black-cab drivers as a city where drivers often do not speak English or know their way around the city's straightforward grid system.

"It is no secret that one proposal, which may be included in this Green Paper, is the licensing of private hire in London," said Mr Dave Barnes, the editor of Taxi magazine. Although there are 17,000 licensed minicabs outside London which coexist equably with the 31,000 regional hackney carriages, the black cabs' Licensed Taxi Drivers' Association (LTDA) is enraged at the prospect of minicabs having licences in the capital.

The LTDA is afraid that granting licences will be the beginning of the end of the black cab's unique prerogative to pick up the public on the street.

There are 35,000 unlicensed minicabs in London, and tensions are already mounting over *the fact* that cabbies see minicabs illegally touting already.

The Licensed Taxi Drivers' Association, which represents the capital's 15,000 hackney carriage drivers, argues that "the knowledge" provides the best calibre of driver. Two thirds of would-be drivers fail the examination.

Hackney cab drivers have to adhere to a strict code, and their cabs are checked every three months. They say their rigorous code of practice (they can be ordered off the road for a smeared windscreen, for example) could never be enforced for minicabs, and that the minicabs would never provide such a good service. For example, all new taxis licensed for use in London must now be capable of carrying passengers in wheelchairs.

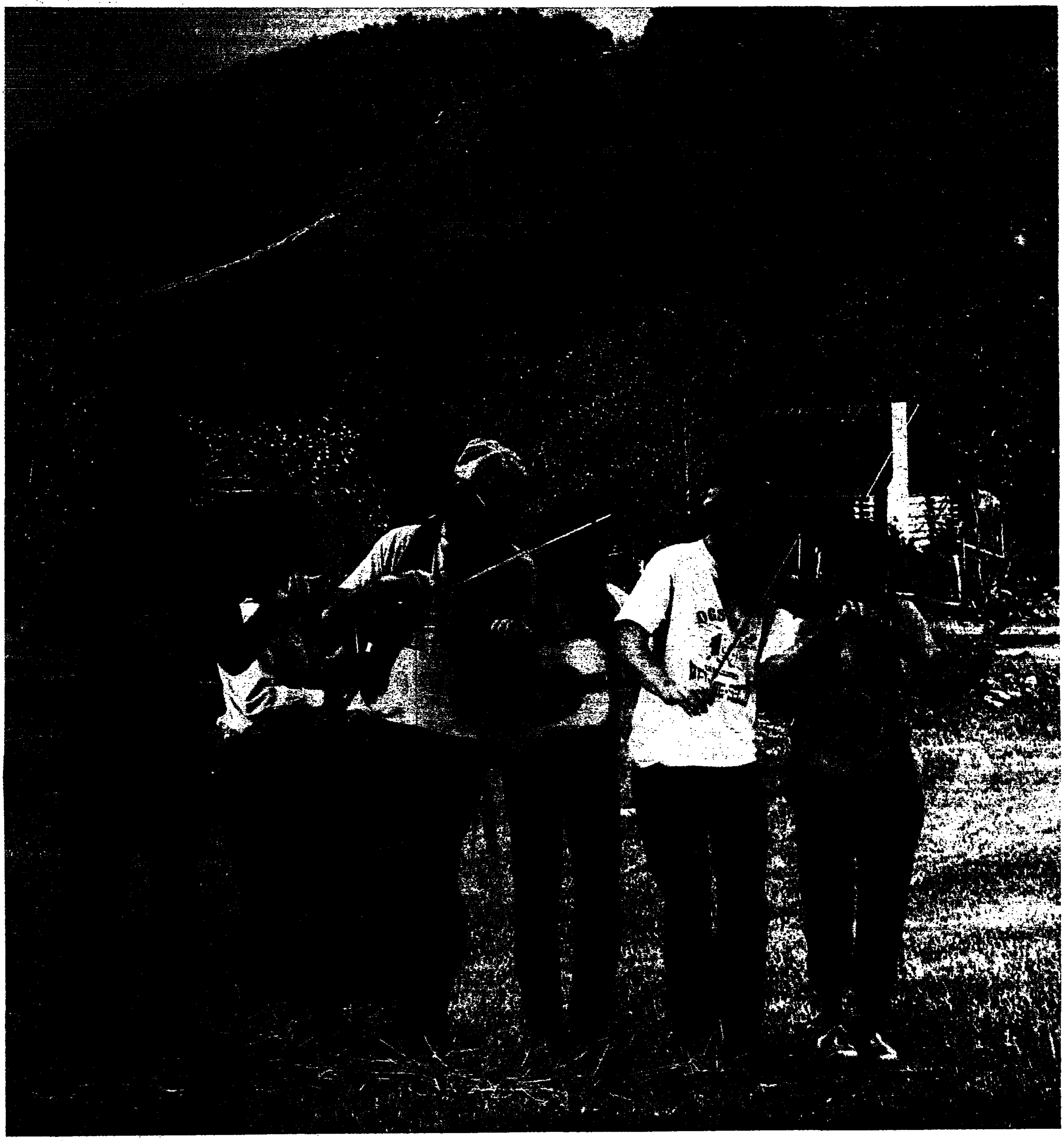
The Private Hire Association, which speaks for the minicab companies, thinks the cabbies are being unduly splenetic. Mr John Griffin, the chairman, argues that licensing private hire will control the "cowboys" on the streets, such as those spotted touting outside the Law Courts in the Strand, to the fury of cabbies.

The minicabs will mend their lawless ways, he predicts, if it looks likely that the Department of Transport will take the initial steps towards making them the black cabs' official rivals.

Some cabbies are now talking about a rerun of the London taxi wars of the early 1960s, when a garage owner put a fleet of 600 pink Renault Dauphines with women drivers on the streets. He coined the term "minicab," and intended his fleet to ply for hire as illegal competitors to the black cabs. Some licensed cabbies resorted to burning the competition's cars.

Only the most historically minded cabbies are recalling the first taxi war, which resulted in a proclamation by King Charles 1 in 1636. The number of hackney coaches was restricted to 50 because the Thames watermen had been vocal in their opposition to the competition from coaches.

Today, cabbies would dearly love to have Michael Portillo in the back of their cab so they could tell him what they think of his proposals.



Looking at Piedmont's latest recruits, can one take good ol' Southern hospitality too far?

★ You've idled your way through the welcoming glass of Carolinian champagne.

Ten minutes of delicious indecision with the menu have produced a quandary: Grilled salmon or marinated shrimp to start? Both?

One cloud rapidly begins to look like the next.

As the litany of distractions dwindles, you twiddle your way through the audio channels and there, suddenly, you meet Piedmont's latest signings:

The finest exponents of Country music. Or, next up, practitioners of beach music presented by one Bill Flynn. Bill, lest it slipped your mind, is North Carolina's answer to Steve Wright.

As for the music, 'yeee hah' provides an approximate critique.

It is an acquired taste.

But then it shows just how far Piedmont's Business Class goes to capture the full hospitable flavour of the south. (For the dissenting, Mozart, Beef Wellington and English newspapers are readily available.)

In fact, only at Charlotte do you discover Piedmont's soft, southern accent has something of an edge:

As a passenger on the sole international arrival of the day, you clear the formalities in minutes. Any one of 406 daily departures can then speed you about your business.

Conveniently, over half the US population is within one hour's flying time of Charlotte.

But, whatever your taste in music, you may well choose to stay put. ★

'Southern Touches' commences 1.4.89. Menus may vary due to menu rotation.

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UK NEWS

Sale cash injection for Sainsbury

By Paul Cheeseright, Property Correspondent

J. SAINSBURY, the supermarkets group, is to receive a cash injection of £90m following the sale of 20 stores and ancillary property to British Land, one of the UK's largest property investment and development groups.

The stores will be leased back to Sainsbury's at rents which give British Land an overall initial yield on its investment of just under 9 per cent.

This is the second significant move that Sainsbury's has made to wring extra value from its property assets. It already has a joint venture company with London & Edinburgh Trust to exploit the redevelopment of properties close to the end of their trading life.

These moves are part of a wider trend among retailers to obtain immediate cash for their property assets. Storehouse, for example, earlier this month injected some of its properties into a new company which provided it with £86m.

Sainsbury's said yesterday that it had consistently maintained a policy of keeping 60 per cent of its property freehold and 40 per cent leasehold. However, its recent expansion programme had led to an imbalance in its property portfolio so that 70 per cent of its properties are owned freehold.

The sale to British Land, Sainsbury's explained, would redress the balance.

But the cash injection also comes at a time of heavy expenditure for Sainsbury's, independently of its recent £123m purchase of the 50 per cent in Savacentre, the hypermarkets chain, it did not already own.

In its financial year ending this month it will have had more than £500m of capital expenditure and opened 19 supermarkets. In the next financial year it plans to open 22 new supermarkets.

For British Land, the purchase of the properties with their 1.25m square feet of selling space, is complementary to its investment portfolio which based on offices and in-town shopping centres. The supermarkets tend to be on the edge of towns. Further, British Land's returns from the Sainsbury's properties will rise as rents increase every five years.

The supermarkets are in the southern half of England, ranging from Southampton to Weston-super-Mare to Leicester and the London suburbs.

Halifax strongly ahead during 1988

By Richard Waters

HALIFAX, the largest UK building society, yesterday reported strong results for 1988 and underlined its present intention not to become a public company.

The society said that it made business sense to remain a mutual society for the foreseeable future but declined to commit itself to the principle of mutuality. Mutual societies are owned by their depositors, rather than any shareholders as such.

This leaves open the possibility, if circumstances change, for the society to reverse its decision of last year not to follow its main rival, Abbey National, in seeking to go public.

Halifax said its share of new mortgage lending rose from 10.5 per cent to 14.5 per cent in 1988. This followed a disappointing 1987 and pointed to the success of the societies in general in recovering lost ground.

The society's lending rose 44 per cent to £10.6bn, accompanied by a rise in profits of 32 per cent to £461m.

This was markedly better than Abbey National, which had already reported a more modest growth in new mortgage business of 26 per cent (to £3.4bn) and in profits of 18 per cent (to £414m).

However, Abbey generates its profits from a significantly smaller balance sheet, making it more profitable than Halifax in terms of its return on assets.

Halifax's income from commissions rose strongly, from £109m to £155m. Mr Jim Birrell, chief executive, said this would grow further in the year ahead as a result of the society's decision to become an agent for Standard Life, which will enable it to earn higher commissions from endowment policies.

The society's profits from mortgage lending also advanced strongly. Its net interest income was 28 per cent higher, while its total mortgages were up by 22 per cent, reflecting an improvement in lending margins.

This resulted in part from a flood of retail deposits last year as investors turned away from the stock market, enabling the society to widen its margins.

Halifax's estate agency chain, with more than 600 branches, made a small, unspecified loss last year.

The group says that house prices will hold broadly steady over the country as a whole for 1989

Power costs to rise by average of 5.8%

By Joel Kibazo

WHOLESALE electricity charges in England and Wales are to rise by an average of 5.8 per cent from April 1, the Central Electricity Generating Board announced yesterday.

The new bulk supply tariff, the price at which the CEGB supplies electricity to the various area boards, is below the current 7.5 per cent rate of inflation.

The charges account for 80 per cent of the costs which the Area Electricity Boards recover through their retail tariffs.

The new charges will allow the CEGB to meet its share of the target rate of return of 4.75 per cent for 1989-90 set by the Government for the industry.

The CEGB expects the new tariff to produce a revenue of £9.6bn and a trading profit of £1.1bn for the year 1989-90. The expected trading profit in the current financial year is £864m.

The board belives the new charges will enable it improve its rate of return on its assets and also carry out a backlog of maintenance work on its ageing stock of generating plant.

But the new tariff may run for only nine months if current government plans to privatise the industry go ahead.

The new companies, National Power, National Grid and Power Gen, are set to take over from the CEGB on January 1 1990 as government-owned companies prior to privatisation in June or July of that year.

However, Mr John Baker, corporate managing director of CEGB, ruled out the prospect of big price rises to customers after January 1.

He said: "There is nothing in the discussions going on at the moment to suggest there has to be a price increase on January 1."

British Gas announced last week that domestic gas prices would rise by 3.3 per cent next month.

Mr Tony Blair Labour's energy spokesman, condemned the price rises as "unnecessary and unjustified, bad news for customers and bad news for inflation. The main reason for the rise is the Government's insistence on raising the industry's return before selling it."

Mr John Banham, Director General of the Confederation of British Industry also condemned the new tariff charges and said heavy users of electricity in industry were already paying as much as 50 per cent more than their competitors in Europe.

Buyout of Belfast yard 'agreed in principle'

By Our Belfast Correspondent

THE GOVERNMENT is believed to have reached agreement in principle with Mr John Parker, chairman of Harland and Wolff, on a management and employee buy-out of the state-owned Belfast shipbuilder.

Lawyers for the Government and Mr Parker's buy-out team were understood to be finalising the legal aspects of the deal last night. Mr Tom King, the Northern Ireland Secretary, is likely to make a statement today in the House of Commons statement, but a last minute hitch was not being ruled out.

Officials were stressing that the proposals would require approval from the European Commission, which has strict rules governing the levels of government support for shipbuilding. The Commission is thought unlikely to block the deal, but it could order a reduction in the level of future shipbuilding subsidies.

Bulk Transport, a London-based shipping group which made a rival bid for the yard, had talks with Mr King last week, but no agreement was reached. Mr Parker's proposals have been the Government's favoured option since Mr Fred Olsen, a Norwegian shipowner, supported the buy-out.

The cost of the deal has not been disclosed. But the bill is likely to total around £500m, including the cost of writing off Harland's debts and guaranteeing support for orders to be placed by Mr Olsen.

If final agreement with the Government is reached, Mr Parker will have to persuade the shipyard's 3,500 employees to invest in the buy-out. Sections of the workforce are known to be frustrated at the lack of information they have received about the plan.

Harland's future has been in doubt since October, when Mr Ravi Tikkoo, the Anglo-Indian entrepreneur, pulled out of talks to buy the yard.

Strategy moves among opposition parties

Labour opts for 'positive market intervention'

By Michael Cassell, Political Correspondent

A LABOUR government would intervene positively to "plug the gaps" in a market economy and make it work more productively and efficiently than it has done under the Conservatives, Mr Neil Kinnock, the Labour leader, told a meeting in Nottingham on Monday.

The Labour leader said the party would make the market work where it could and would replace or strengthen it where it was failing.

Mr Kinnock was outlining the party's revised economic strategy in the first in a series of speeches designed to prepare the way for the conclusion of Labour's two-year policy review, undertaken after the party's defeat in the last general election.

He stressed that Labour would not return to old-style interventionist policies. The traditional demarcation lines between public and private sectors were no longer absolute and there was now a need for different degrees of collaboration and joint ventures between the two.

Natural monopolies and utilities, he said, had to be subject to proper regulation and public participation but, across the economic spectrum, the role of government was to participate as well as regulate.

Acknowledging that the leadership would be charged by some party followers of "consorting with capitalism," Mr Kinnock spelled out Labour's acceptance of the market economy but accused the Government of subordinating economic decision-making and abdicating responsibility for improving Britain's competitiveness to the market place.

He said that Mrs Margaret Thatcher, the Prime Minister, had "not merely stood aside from the operation of market forces but has dismantled or weakened many means of strengthening the country's productive performance". Other leading economies, however, had "not been led by the Thatcherite delusion that to govern is to abdicate".

The present government, he claimed, had simultaneously "made Britain a featherbed for importers and a bed of nails for exporters." Even if the latest economic measures from Mr Nigel Lawson, the Chancellor of the Exchequer, succeeded in slowing the economy, cutting imports and flattening living standards, the process would not make the British economy any better able to compete.

Left alone, Mr Kinnock said, the market had not invested sufficiently in education, training, research and development. The Government had failed to invest in the nation's infrastructure, presided over growing regional imbalances and increasingly withdrawn from its obligations to the modern economy and modern society.

However, it was not enough for Labour to set about patching up the omissions of the market system. There had to be clear identification of mutual interest between companies and the government, followed by systematic action.

Among specific proposals, Mr Kinnock made the case for a national strategy to boost publicly-funded research for small companies. He also called for a network of professional advice centres to help small firms and for joint research ventures between big companies and government.

Mr Kinnock also envisaged changes to takeover legislation which could lift the threat of predator bids from groups made vulnerable by their commitment to long-term investment.

The use of "Golden shares", which give the government a blocking vote on takeovers, or a strict interpretation of the "national interest" would not "wrap companies in protective cotton-wool" but would provide them with an opportunity to survive independently.

SDP offers outline of coalition to beat Tories

By Michael Cassell, Political Correspondent

THE Social Democratic Party, which is headed by Dr David Owen, has disclosed proposals for a constitutional coalition intended to defeat the present government at the next general election.

The party rejected a merger with the Social and Liberal Democrats or the prospect of pursuing what it described as "a vague strategy of left-of-centre unity." However, it said the opposition parties could temporarily combine to help create a new political framework.

A statement by the party's national committee warned that, without a pre-election agreement on seats involving as many opposition parties as possible, the Thatcher government would not be defeated at the next election.

It said the SDP was ready to play its part in a coalition created before the next election and ready to govern in the national interest for a set period afterwards. Its principal task would be to introduce proportional representation.

The committee said the proposal would mean that the SDP was ready to withdraw candidates in favour of other opposition party candidates when it made sense, but it would not join any joint selection process.

It acknowledged that a winning coalition could not be formed without the Labour Party, which was "too big to beat but too weak to win." It did not expect Labour to accept its case now, but believed that it would come to see constitutional reform and a coalition as the only course.

Speaking after a meeting of the party's national committee on Monday, Mr John Cartwright, the SDP president, said he had written to Mr Ian Wrigglesworth, president of the Social and Liberal Democrats, suggesting the two parties continued to discuss a way for either party to stand down in future contests.

There is no sign, however, that the two parties are any nearer to reaching an agreement which would leave only one of them standing in the forthcoming Vale of Glamorgan by-election in Wales.

Freeman put at the helm for the great UK health debate

Philip Stephens looks at the task ahead for Mrs Currie's successor

Freeman: facing a major task in the health service

STEPPING into the shoes of Mrs Edwina Currie in the midst of a political storm over food poisoning is not a task that many members of the Government would relish.

On the day last December when the junior health minister was forced to resign, more than one of her colleagues confessed to spending a few hours worrying that they might be singled out for the call from Downing Street.

In the event the choice of Mrs Margaret Thatcher – Roger Freeman – was masterly. After 2½ years as a parliamentary under-secretary at the Ministry of Defence, Mr Freeman had established himself as the antithesis of Mrs Currie.

While she – at least until her fateful television interview on the incidence of salmonella in eggs – had assiduously cultivated the media, Mr Freeman appears to see it as almost an incidental irritation.

Variously described by colleagues as upright, discreet and, occasionally, dull, and by the media as invisible, Mr Freeman is one of the few ministers in publicity-conscious Whitehall without a television in his office.

"Publicity," he adds without a trace of irony, "is an addictive drug, and I do not want to start taking that medicine." It is unfair, however, to cast Mr Freeman in the shadow of his predecessor. With the Government's planned reforms of the health service running into a storm of criticism, he will have a key role in helping to persuade administrators and doctors that the aim is to strengthen rather than break up the NHS.

Mr David Mellor, who holds the Number Two job in the Department and is not known for his dislike of the media, has taken over the responsibilities for health education and preventative care which kept Mrs Currie in the limelight.

Mr Freeman's task is one which he describes as in the "salt-mines of politics," but one which will be pivotal to the success or otherwise of the NHS reforms. That is to ensure that health authorities and family practitioner committees put in place the financial and management systems which will allow the creation of the internal market in health that the NHS White Paper envisages.

Without those systems, the proposals for self-governing hospitals, for GPs' budgets, for the buying and selling of services across health authority boundaries and for new controls on drugs expenditure will not work. It is a task that Mr Freeman, who entered parliament only in 1983 as MP for Kettering after a successful career as a chartered accountant and investment banker, clearly enjoys.

He enjoyed, he said, his spell at the Ministry of Defence, but getting back to his original trade of resource management is clearly preferable to dealing with complaints about low-flying aircraft or brutality in the Army.

Even before Mr Kenneth Clarke, the Heath Secretary, launches the Government's campaign to drum up support for the reforms, Mr Freeman is spending two days a week in different parts of the country analysing the experiments already under way.

The aim is to use sophisticated computer soft and hardware to create "the next best thing to a pricing mechanism within the NHS." But for that to work Mr Freeman will have to persuade far from enthusiastic doctors that "clinical freedom can march comfortably with financial responsibility".

In that respect he was an interesting political choice for the job. Though not an obvious "wet," he clearly shares Mr Clarke's view that the changes are not a substitute for, but a complement to, additional cash for the NHS.

The more radical solutions for the health service proposed by some of his colleagues are "not appropriate," he says.

At 46, he says, he finds a politics a "very interesting life" but seems unconvinced that the rewards merit the efforts needed to keep climbing the ladder.

FT LAW REPORTS

No group tax relief on non-trading activity

OVERSEAS CONTAINERS (FINANCE) LTD v STOKER (INSPECTOR OF TAXES)

Court of Appeal (Sir Nicolas Browne-Wilkinson, Vice-Chancellor), Lord Justice Parker and Lord Justice Russell): March 16 1989

A TRADING activity is one which has a genuine commercial purpose, though it may also have a collateral fiscal purpose; and where an activity conducted by one company in a group has a commercial characteristic in relation to that company only but has no commercial purpose other than to achieve a tax advantage within the group as a whole, it is not a trading activity and does not give rise to group relief from taxation.

The Court of Appeal so held when dismissing an appeal by Overseas Containers (Finance) Ltd from Mr Justice Vinelott's decision upholding assessments made against it by the Inland Revenue.

THE VICE-CHANCELLOR said that Overseas Containers Ltd (OCL) carried on a successful and profitable trade as owner and operator of container ships.

Some of the vessels were owned by OCL. Others were chartered by OCL from four independent shipping companies who between them owned the share capital of OCL.

In 1967 the four shareholders each contracted to purchase vessels to be constructed by a German shipyard and to be operated by OCL. The shipyard made loans in Deutsche marks to OCL to finance the construction costs. The interest rates were subsidised and the market rate of interest on Deutsche mark loans were lower than rates for sterling loans.

Overseas Containers Finance Ltd (OCFL) was formed in 1969. Its objects were to provide short and medium-term finance and to carry out foreign currency transactions and invest surplus funds for OCL and its associated companies.

The special commissioners found that the sole or dominant reason was OCL's wish to get the best tax treatment for the financial transactions that OCFL was formed to carry out, in particular in relation to currency losses on the Deutsche mark loans.

The tax advantage sought was as followed: loans to OCL in Deutsche marks carried a risk that sterling would be devalued as against the Deutsche mark, thereby giving rise to a currency loss on repayment of the loans. Such currency losses, being capital losses, would not be allowable in computing OCL's tax liability. However, if they were to be incurred by a finance company such as OCFL in the course of conducting its trade, they would be deductible in computing its tax liability. If OCFL, after deducting those losses, was left with a net loss on its trading, the loss would, by reason of group relief, be available to be set against the other income of companies in the OCL group.

The tax advantage would only be obtained if the currency losses were deductible in computing OCFL's profits for tax purposes. To be deductible it had to be shown that the transaction in which OCFL suffered the currency losses, were "trading" transactions; and that the currency losses were revenue as opposed to capital losses.

The transactions central to the case were medium and short-term loans required by the OCL group for financing its capital expenditure. The loans, in Deutsche marks, were made to OCFL who lent the sterling equivalent to OCL. OCFL assumed the whole exchange risk, but received a higher rate of interest on the sterling loans to OCL than it had to pay on the Deutsche mark loans to the German lender. The loss accruing to OCFL from those transactions was £14.4m.

The special commissioners found that OCFL was a mere conduit pipe inserted between OCL and the sources which satisfied OCFL's financial requirements. The offices and staff of OCFL were effectively those of OCL. They only extra burden on staff was the keeping of separate books of account and the need to determine the market rate of interest payable on the sterling loans by OCFL to OCL.

They found that commercially the OCL group as a whole continued to operate as before and to produce the same trading results as before. The payment of interest by OCL to OCFL merely transferred income from one company in the group to another, producing no alteration in the taxable profit of the group as a whole, apart from the deductibility of the exchange losses.

However, they rightly felt bound to treat OCFL as a separate legal entity. They said the crucial question was whether OCFL's transactions were of a truly commercial character.

They found that the sole or dominant purpose was to obtain a fiscal benefit, and held that the transactions were not trading transactions.

Mr Justice Vinelott affirmed the decision that the loan transactions were not trading transactions. In his view the inter-position of OCFL between OCL and the German lenders had achieved no commercial purpose. The only commercial element in the transaction was the interest differential between the low rate of interest payable by OCFL to the lenders and the higher rate payable by OCL, but that was simply a transfer of income from the OCL group to OCFL. OCFL appealed. The sole question was whether the various transactions constituted "trading transactions" by OCFL. There was no suggestion that the loan transactions were a sham.

Whether a transaction was in the nature of trade was a question of fact for the special commissioners. The court could not interfere with their decision save in the case of an error of law.

The only issues of law which arose were whether it was relevant to take into account a fiscal purpose for which an alleged trading transaction was entered into and, if so, what was the effect of the existence of such a purpose.

The meaning of "trade" was not defined by statute, but had been explained as meaning "operations of a commercial character by which the trader provides to customers for reward some kind of goods or services" (see *Ransom v Higgs [1974] 1 WLR 1594,1600*).

The commercial character of a transaction was normally determined objectively by the nature of the transactions itself. However, it was established by authority that in addition to the outward badges of trade the transactions must have a commercial purpose.

If essentially the transaction was of a commercial nature and there was a genuine commercial purpose, the presence of a collateral purpose to obtain a tax advantage did not "denature" what was essentially a commercial transaction. If, on the other hand, the sole purpose of a transaction was to obtain a fiscal advantage, it was logically impossible to postulate the existence of any commercial purpose.

On the authorities, the purpose with which transactions were carried out was always relevant in order to determine whether the transactions had a commercial purpose. If there was a genuine commercial purpose but also an ulterior purpose, it would be a question of fact and degree for the special commissioners to determine whether essentially they were or were not commercial transactions.

In such a case it was not correct, as matter of law, to conclude that the existence of the ulterior purpose (whether fiscal or not) required a finding that the transactions were not commercial. Only where the commissioners found that the sole purpose of the transaction was ulterior and not commercial could it rightly be said that, as a matter of law, the transaction could not be a trading activity.

Where, as in the present case, there were a number of associated companies, regard had to be had both to the overall fiscal purpose of the group and the impact of its implementation on the group (see *Coates [1984] 1 WLR 1328* and *Lupton [1968] 1 WLR 1401*).

The special commissioners found that OCFL did not have the outward appearances of a finance company nor did it run the risks one normally associated with a finance company; that the only or dominant purpose in establishing OCFL was to protect the OCL group from currency losses; that that purpose continued to operate in relation to later loans reflecting the commercial requirements of the group, which were passed through OCFL for non-commercial purposes; and that the charging of interest by OCFL to OCL at market rates was done to give the loan transactions the trappings of a financial trade.

On those findings of primary fact OCFL's claim that the transactions were trading transactions was hopeless unless it could point to some characteristic of the loan transactions which was *genuinely commercial*.

The only commercial characteristic relied on was the fact that OCFL obtained the interest differential. Looked at from the point of view of OCFL in isolation, that was a genuine commercial characteristic.

But if one looked at all the circumstances of the case (the position of the group as a whole), there was no commercial element at all. The difference between the interest paid and the interest received by OCFL represented simply a transfer of income from the group to OCFL.

There was no ground on which it could be held that the medium and short-term loan transactions were trading transactions.

The appeal was dismissed.

Lord Justice Parker and Lord Justice Russell agreed.

For OCFL: Andrew Thornhill QC and Jeremy Woolf (Freshfields). For the Revenue: Peter Goldsmith QC and Alan Moses (Inland Revenue solicitors).

Rachel Davies
Barrister

CONTRACTS

£50m heat and power plant

Tunnel Refineries, maker of glucose syrups and starches, part of CSI/Tate & Lyle Group, has signed a £50m contract with EMSTAR, a subsidiary of Shell UK, to install and operate a combined heat and power plant at its Greenwich refinery.

The ten-year contract, involving Emstar in a capital investment of some £8m, and providing energy services over the contract period worth £50m, is said to be the largest contract in the UK to be engineered, funded and operated by a contract energy management company. It involves the generation of nearly 15 MW of electricity.

Any surplus electricity will be made available to the London Electricity Board. The project is expected to save Tunnel £500,000 p.a., or about 10 percent of its present energy bill.

Two 6 MW gas turbine generators linked to two waste heat boilers will be installed, and will work in conjunction with an existing 2.2 MW steam turbine driven generator.

The existing boiler plant will be retained to serve as a standby. Electricity will be imported from the LEB during breakdowns or maintenance of the new plant.

All electricity, steam, demineralised water, soft water, and compressed air required for the production process will be supplied from the central power house operated by Emstar.

Converting milk powder into yoghourt and condensed milk

APV has won orders worth £21m for installations in the UK, Europe, North and South America, the Middle East and the Far East.

On the Ivory Coast APV is general contractor for a milk plant being built for SIALIM.

Worth £4.2m, the contract is for equipment to convert milk powder from France into sweetened condensed milk, UHT milk and yoghourt.

Other orders include one from the Holsten Brewery in Hamburg, West Germany, to install 39 fermentation and storage tanks, with process automation and control equipment.

The installation, which will cost DM 8m (£2.5m), will be complete by spring 1991.

In the UK, APV has been awarded orders worth £6m to supply three automated food plants, including an ambient yoghourt plant for Bridge Farm Dairies, Mildenhall, Suffolk; an aseptic bulk food processing plant for Sous Chef, and a liquid milk dairy project for Central Midlands Co-op.

Polaroid

Looking for a rosier picture

Roderick Oram on the US photographic group's efforts to reassert itself

Although Polaroid has yet to occupy fully the microelectronics laboratory it opened three years ago, it recently found a good use for the empty top storey of the building at Cambridge, Massachusetts. In the bare unfinished space it exhibited new products and technologies with which it hopes to revolutionise the way the world records images.

The first visitors were perhaps the most important. Some 125 bankers braved a snowstorm to see if the pioneer of instant photography had something of a future before they lent it $949m.

Reassured by the technological *tour de force*, they signed the papers a few days ago. The money will help Polaroid fight off an unwelcome takeover bid so that it can prosper again after a decade of débâcles, decline and profound changes.

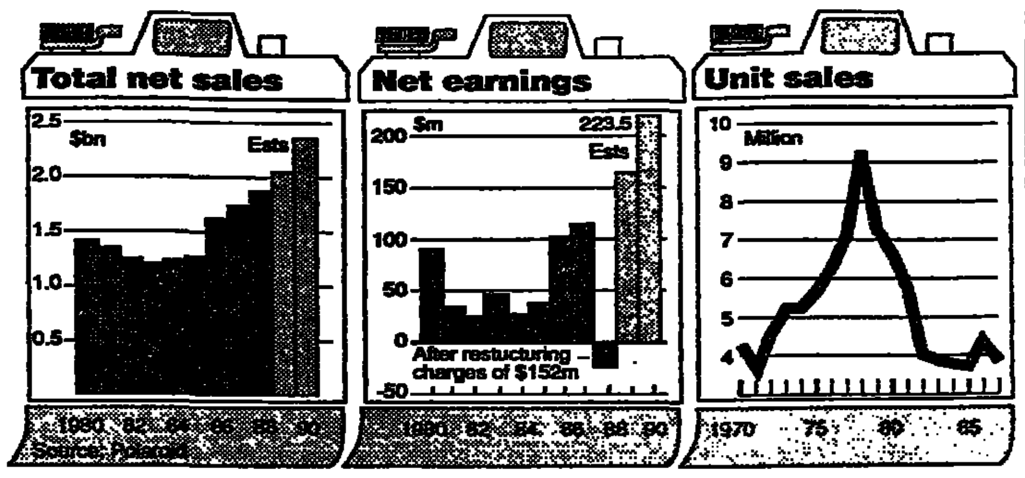
Just down the street from the lab lies the empty workshop where Dr Edwin Land founded Polaroid 52 years ago. He must have had an eye on history when he chose the site in the shadow of the Massachusetts Institute of Technology.

Alexander Graham Bell received the first telephone message there in 1876. From there, Land began building Polaroid into the first high-tech miracle company of the post Second World War years.

The fattest year was 1978 when Polaroid produced nearly 10m cameras and made $118m in net profits. But thereafter it badly misjudged its markets and competition. Dragged down by the failure of instant cine films and other misjudgments, it slumped to net profits of $25.7m in 1984 and a total of 3.7m cameras in 1985.

The enterprise Land had created was no longer viable. Paternalistic, besotted by technology but vague on marketing, it revolved around him and his vision for making useful consumer products that could transform society. Even after he retired in 1982, it took new senior management several years to pluck up the courage to take the first tentative steps to remake and redirect the company. The process only began in earnest around 1986.

The two most crucial decisions were commitments to electronic and thermal imaging – radical departures from Land's chemical photography – and to a more business-like culture. But MacAllister Booth, Polaroid's chief executive since 1986, realised he had to change the culture first otherwise employee resistance would hamper the company's speedy



MacAllister Booth

evolution.

The process continues but Polaroid has already markedly altered the way it pays people and designs, protects, and shuffles their jobs. Last autumn it shed 1,900 employees, 20 per cent of its US workforce, through voluntary redundancy but has still never forced anyone to leave.

It believes it has retained a lot of the old ethos but has made its application cheaper and more flexible, though not without some pain. "You can assume that everything that can happen in such changes did," says a senior executive.

Although some employees were deeply unsettled by the changes, managers say that nevertheless the company has pulled together to fight a takeover offer launched last July by Shamrock Holdings, an investment vehicle of Roy Disney, nephew of the wizard of cartoon films.

Polaroid is fighting for its independence with a $880m buy-back of 22 per cent of its stock at $50 a share (against $45 a share offered by Shamrock), greatly expanding an employee share ownership programme and selling stock to an investment fund organised by Lazard Frères, the investment bank.

Its tactics have attracted a legal backlash. "We need a scorecard to keep track of the lawsuits," says Sam Yanes, Polaroid's spokesman. Shamrock's last and faintest hope of buying Polaroid hinges on blocking its defence plans in Delaware's Supreme Court this week. If it does not, perhaps as much as 30 per cent of Polaroid's stock will end up in the hands of executives, employees and friendly investors.

Perhaps Polaroid's best defence is its forecast that operating profits will hit $440m in 1990, double last year's, thanks to a sharply refocused marketing strategy and cost cutting. After several unhappy experiences, for example, Polaroid is finally getting the hang of automated camera manufacturing lines thanks to equipment from Sony of Japan.

It should also win big anti-trust damages from Kodak which has already been found guilty of infringing Polaroid's patents in its ill-starred venture in the 1970s into instant photography. The settlement could run to $1.5bn or more.

Profits in the early 1990s look even better as Polaroid brings a wave of new technology imaging products to the market.

Until then, ironically, Polaroid's prosperity will come from the patrimony it partially neglected. Land saw instant photography as mainly a consumer product. Although the company developed such applications as identification badges and medical photography, these commercial uses played second fiddle.

"We always realised we had some business there but we didn't know the magnitude or potential," says William O'Neill, head of worldwide marketing. It began to get more serious about it in 1984, breaking up its monolithic marketing department into more tightly targeted sector teams.

A further revelation came in the past couple of years; with little prompting from Polaroid, people around the world had found commercial uses for Polaroid's amateur instant photography cameras. Over the past couple of years, Polaroid has launched abroad its first ever advertising programmes to promote such uses. The result was an increase in sales of film by, for example, 24 per cent in West Germany and 16 per cent in Japan.

It will soon try the same approach in the US where it believes about one-third of its film is bought for commercial purposes. Carl Yankowski, vice president of marketing, recently discovered, for example, a Los Angeles foot doctor who takes scores of before-and-after photos of bunions each month.

A new US advertising campaign this year will stress for the first time all the uses of a Polaroid camera beyond the quick flash of instant party fun. "We believe there's a whole lot more utility to instant photography than people understand," Yankowski adds.

The underlying strategy is to get people to use ever more film – and with good reason. Whereas Polaroid's camera profits are very slender, it has a gross margin of around 80 per cent on film, one analyst estimates. Moreover, he estimates that film accounts for about 70 per cent of photographic revenues which in turn are about 90 per cent of total sales. Best of all, film sales have been growing about 4 or 5 per cent annually in the past few years. Recent or imminent joint ventures in the Soviet Union, China and India are opening up large new foreign markets.

Polaroid will introduce higher quality film next year and a much smaller camera in 1991 to help it better match the competition from conventional 35mm film and compact, automated cameras. They will also help bolster its position when its main patents expire next year. It will also launch this year conventional film made by others and carrying its own name. It learnt the power of its brand name a few years ago with blank video tapes. They are now the top brand in the US, generating about 10 per cent of Polaroid's sales yet employing only about five full-time people.

"Within a year, more pictures will be taken on Polaroid conventional film than instant," says Yankowski. No way a retreat from instant photography, it reflects purely the scale of the new sales opportunity. It is central to the company's strategy of letting consumers capture a "basket of images" on various types of Polaroid film and tape.

The concept should really blossom in the next few years with products using electronic and thermal imaging. Polaroid only got seriously stuck into these technologies about three years ago. This year they will account for 42 per cent of its research and development budget against 51 per cent for chemical imaging and 7 per cent for diversified areas such as holography. The total budget is $144m, or 7.6 per cent of sales, in line with past levels.

"We have more ideas than we can work on," says Peter Kliem, the company's head of research, "but we recognise our financial responsibility to shareholders."

The refocused R&D drive has had some unexpected benefits. "The cultural changes – and opportunities – are incredible," Kliem adds. "We have learnt more about our instant chemical-based photography in the past three years than in the past 10" through such techniques as computer modelling.

On the thermal side, it will bring to market next year its Helios device for using lasers to etch images on plastic sheets. It sees significant savings in time and cost plus superior pictures over wet chemical prints in such fields as ultrasound, CAT scans and other medical applications.

It is pinning even greater hopes on electronic methods to capture, store and manipulate colour and black and white images and then print them on its standard chemical instant film. These first products have just come to market and more will follow in the next few years.

As part of its culture change, Polaroid has ditched its "not-invented-here" hang-up and started opening itself up to other people's ideas and products. Thus, for example, it is aggressively seeking to sell printers for pictures generated by electronic still cameras made by the likes of Sony and Hitachi. Both Japanese companies are currently offering thermal printers but Polaroid claims that they have far higher cost and lower quality and convenience than Polaroid's machines that create an electronic image on its chemical instant film.

Over the longer term, analysts endorse Polaroid's vision that chemical photography will become ever more intertwined with electronic and thermal imaging. Though Polaroid will face formidable competition from Kodak and the electronic giants of the world, its virtual monopoly of instant chemical photography should ensure it a major role if it plays its cards right.

As one Wall Street analyst concludes: "The potential for these products is greater than all the ones they've introduced in the past 20 years."

A means, not an end in itself

Alan Cane on information systems

The idea that information systems can be the answer to every company's search for competitive edge is beginning to deflate like a punctured balloon.

Evidence is growing that attempts to use technology to steal a march on the opposition meet more often with failure than with success. Robert Morison and Kirt Mead, both of the Index Group, a US-based company specialising in information systems consultancy, argue that many stories of competitive edge seized through use of strategic systems are "oversimplified, mistaken or even fictitious."

There are, of course, a few well authenticated examples: American Hospital Supply (now Baxter Healthcare) and American Airlines, for example, both of which managed to secure a stranglehold on the "channel" between themselves and their customers by installing computerised ordering systems which effectively shut out their competitors.

Morison and Mead argue, however, that "scarcely a word of caution has been issued about the difficulty, much less the risk, in creating and building strategic systems."

Their analysis debunks a number of industry myths, including the notion that a computer system itself can be strategic. Not so, say Morison and Mead. "An information system may support or enable an important change in the way business is done and it is this business change that is strategic. Thus, looking for corporate salvation through a 'hot systems concept' is self-defeating," they say.

Morison and Mead have identified six areas to be addressed if companies are serious about seeking advantage through information technology:

● The greatest advantage from a system accrues when it supports a fundamental change in the way business is conducted. Such systems are likely to be large, complex and difficult for competitors to copy.

Typical business changes include the delivery of a new product or service, response to a difficult strategic imperative like deregulation, or reconfiguring core business processes.

● Where "channel" systems linking supplier to customer are concerned, influence is important. Powerful suppliers are able to lock up the channel to weaker customers, but not vice-versa. Indeed, strong customers in retail and automobile manufacture are using electronic data interchange to influence their smaller, weaker suppliers.

● In the majority of cases, an information system cannot provide a sustainable competitive advantage. Too often competitors retaliate quickly and render worthless heavy investment in technology. Morison and Mead say: "What information systems can provide is the base and environment for on-going innovation that creates a moving target for would-be innovators."

● Pick the right targets, Morison and Mead urge. Strategic systems must be built with their intended effects on the competition and the structure of the industry clearly in mind, they say, warning that companies should anticipate responses to their initiatives.

● Just as companies should think carefully about who they intend to hurt with their new systems, they should consider who they want to please and what relationships they intend to foster.

Rather than thinking of the customer as victim, a supplier should aim to give better value – improved delivery times, new products and services and lower costs.

● The risks in any innovative systems strategy will be high: there is the danger of altering the structure of an industry to the detriment of all the market players; the risk of choosing the wrong technology and the problems of persuading people and departments to accept the new technology and the underlying business changes.

Given that a company can come to terms with these points, what else does it need for success with strategic systems? A "champion" in upper management "who supports the system and is ready to fight for it."

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ARTS

Programmed to titillate

Alan Friedman reports on Italian television

Why do travellers to foreign places almost always make the switching on of their hotel room television sets a ritual that tends to precede the unpacking of bags and the prying opening of their mini-bars? Many, I suppose, do so because television is the most nearly perfect simulacrum of reality invented by Western culture and by channel hopping one gets a quick, albeit superficial feel for what is happening locally.

In Italy, the first time a foreign visitor switches on and tunes in may be something of a jarring experience. At least this was true in my case, ensconced in a hotel room in Florence back in the autumn of 1983. It was early on a Saturday evening and the small screen beamed glitzy images of 20 or 30 lingerie-clad chorus girls dancing around a mustachioed variety show host so obese that the buttons seemed ready to fly off his pastel-coloured dinner jacket. The expensive studio backdrop was festooned with a larger than life corporate logo that belonged to the manufacturer of a popular Italian soap powder, thus conjuring images of early 1950s American television, when presenters such as Milton Berle or Ronald Reagan pitched entertainment, along with sponsor plugs for the Texaco Hour or General Electric Playhouse.

Not a lot has changed in Italian television over the past five and a half years, but then the variety mega-show has been a staple of Saturday night video entertainment in Italy for the past three decades. North of the Alps much is said and written about the lurid quality of Italian television and how this is an example of utterly unregulated broadcasting, but in some ways this begs the real question. Yes, rubbishy programming is a profitable business in Italy, but is this because there are no broadcasting watchdogs, or because Italian popular culture places quite a premium on sex and ostentation?

Italian television *is* indeed unregulated; anyone with the cash can set up a local station and transmit what they please, although only the three RAI state networks are allowed live broadcasting. For this reason the big guns of Italian television – the RAI stations plus three nationwide commercial networks owned by Silvio Berlusconi – are flanked by more than 1,000 local stations, many of which broadcast a trashy mix of semi-porn and third-rate 1970s American serials. To understand what Italian television is about however, one needs to appreciate both the historical context and the politics of state and private networks.

Until a decade ago Italian television meant the RAI networks and nothing else. It was in the late 1970s that the small local stations started springing up, often launching themselves with pornographic films in order to garner audiences. Then came Silvio Berlusconi, an enterprising Milanese property developer who in order to get around the law against live national broadcasting began shuttling pre-recorded video tapes around 800 relay stations and broadcasting them simultaneously in order to create the illusion of a national system. Berlusconi's formula, although not pornographic, includes some of the crassest variety shows in Europe, a string of moronic *Los Angeles* detective serials, *Dallas* and *Dynasty* dubbed into Italian, Hollywood quiz programmes, plus sports and films. His three networks have proven such a runaway hit that they now account for 45 per cent of prime time viewing (neck and neck with RAI) and so much advertising that he is under fire from critics up and down the country.

The Berlusconi revolution has had an alarming impact on the RAI networks in as much as they have shifted downmarket in order to win back audiences. Tabloid television is now a feature of RAI with programmes such as *Io Confesso* that include muggers and other social deviants hiding behind screens and confessing live before millions of viewers. The confession programme is mild, however, compared to the crop of strip-tease shows on other commercial stations or the late night appearance of transvestites hawking porn videos to viewers who may dial in and order. To put it bluntly Sir William Rees-Mogg would risk a cardiac arrest if he had to deal in the UK with the kind of fare one can find every night on Italian telly.

Italian television is of course not always as bad as this; RAI does make some very good documentaries and both RAI and Berlusconi networks do show a range of excellent films. The problem of squalid programming is not merely that Italy lacks UK-style censors or that Mediterranean television is unregulated; rather it would appear that there is enormous demand for titillation telly among viewers – and this has as much to do with the sin-and-confess attitude of Italy's extremely tolerant Catholic culture as with anything else. Many Italians consider the British to be a nation of prudes and hypocrites and argue that they are simply less repressed about voyeurism in public life. Gary Hart and John Tower, it is repeated endlessly at Italian dinner parties these days, would probably be popular politicians were they in Rome. And Italy's serious weekly news magazines constantly splash their covers with uncovered breasts and thighs – it helps sales.

The real issue is not just – as some of those involved in the UK debate about deregulation maintain – whether lessons can be drawn in Britain from the Italian experience. The cultural gap between the two countries is, after all, so wide that having Italian politicians and businessmen are unembarrassed about being seen in public in the company of their mistresses. One might well approach the issue from another angle and ponder the Europe-wide ambitions of media tycoons such as Mr Berlusconi: would you like this man's programmes in your living room?

Silvio Berlusconi

Aside from a lack of quality control Italian television suffers from another big problem – the political manipulation of the RAI nightly news. "La Mamma RAI," as the state network is known, is part of Italy's political spoils system. As a result RAI 1 is controlled by Christian Democrats, RAI 2 by the Socialists and RAI 3 by the Communists. Not only is there a disproportionate amount of domestic political coverage on the three nightly news programmes, but watching the daily news in Italy is perilously similar to watching party political broadcasts in Britain.

One of the most blatant examples came last week when the director of the Socialist-influenced RAI 2 News went on camera to defend Mr Claudio Martelli, the deputy Socialist leader who is presently at the centre of a national controversy over allegations that he was stopped by the police in Kenya during a recent holiday and supposedly found to be in possession of marijuana, charges that Mr Martelli has denied. Several other parties have since called for the RAI 2 journalist's head, but no one expects him to resign. And the slanting of news on RAI 1 in favour of the Christian Democrats is every bit as pervasive as the Socialist tilt of RAI 2.

If the foregoing seems rather critical of Italian television in the main, then good. Much of the television news in Italy is outrageously biased while much of the programming is simply dreadful.

Richter

FESTIVAL HALL

Sviatoslav Richter arrived on the Festival Hall platform on Monday night – and fears that an eleventh-hour cancellation would rob us of his return yet again could finally be laid to rest. The long and barren years of being denied his presence here, of being fobbed off with the occasional new record, were over: it was an occasion for celebration (in a biographical sense also: yesterday was the pianist's 74th birthday).

Previously-initiated Richter admirers could renew contact with that lean, fiery, singing sound drawn from the favoured Yamaha instrument, every note and phrase stamped with an unmissably and indelibly personal quality. Newcomers could acquaint themselves in the flesh with the incandescent artistry that makes of a solo recital one of the most powerfully illuminating and exhilarating voyages of discovery of our day.

It was a great occasion, great above all since there was nothing nostalgic or shadowed with polite regret about the experience of the playing: the septuagenarian pianist now relies on the scores (with a little side light and a darkened hall to give even this auditorium the illusion of intimacy), but that was the only detectable concession to the advancing years.

On Monday, indeed, he gave us one of the stupendous London recitals of recent times. Superlatives will of necessity be used, and abused, in the course of this notice; that is the risk one runs in attempting to pin down on paper its special thrill. The virtuosity that coruscates because of the "divine madness," the untrammelled musical imagination, by which it is funded is still exactly in place – the final movement of the Prokofiev Fourth Sonata (closing work of the main programme) and all three Bartók encores raised the familiar portion of goose-flesh. Mind and fingers remain at one, uniquely united to explore the inner life of the music.

It was one of the classic Richter programmes – the Schubert G major Sonata (D.894) before the interval, the four Schumann *Nachtstücke* and Prokofiev sonata after it. The opening of the Schubert, *Molto moderato e cantabile*, was transformed (as I remember Richter doing at the Snape Maltings more than a decade ago) into the slowest of meditations. In the beginning one wonders how the pace can possibly be sustained: quite soon one is sucked into an experience poised between dream and wakefulness – which is surely precisely where Schubert sited the musical invention and its exploration.

Richter is of all Schubert pianists one of the most modern, in his "psychological" concerns, and at the same time one of the most poetically hypnotic, in his ability to unfold the whole landscape as it were in a single line of thought, to caress the rhythms and make them lilt while preserving the essential feeling of deeply disturbed quiet. There were one or two fumbles and, in the finales, patches of brusqueness, but the intimate beauty of the performance was left unscathed.

If anything, his Schumann playing was even more remarkable (will we ever hear his incomparable account of the Fantasia in the concert hall again?). These four strange pieces, domestic in scale and oddly morbid in tone, can sound quirkily unsatisfying under uncomprehending hands. The genius for the plunge *in medias res* which is also in a daring half-voice, for the sudden frankly tender expressivity of the fourth piece – in all of this we heard a supreme Schumann pianist at the peak of his powers.

Of the Prokofiev the same should said – or else the phrase should be amended to read "*the* supreme Prokofiev pianist," since the genius for making electrifying what other pianists leave trivial and mechanical is incomparable. Richter gives a Barbican recital next week: then how long before his next return? Some way has to be found to bring him back to London regularly from now on: we cannot do without him.

Max Loppert

The Misanthrope

BRISTOL OLD VIC

By a happy coincidence, my very first *Misanthrope* was at Bristol's Theatre Royal with a promising young cast that included a bitchily purring Rachel Roberts and a wildly foppish Peter O'Toole. But memories did not obscure the gleam of Paul Unwin's stylish new production which touches the balance between grave and gay, light-hearted and sombre.

The virtues of Tony Harrison's translation have been much rehearsed. It remains fluent and elegant, its colloquialisms perfectly judged, its rhymed pentameters beautifully natural, escaping the bathos that nearly always attends them in English.

Richard Hudson's design for this modern Paris boasts a dream-like perspective. The steeply-raked stage rises to a stately doorway, flanked on one side by an equally-distorted wall, on the other by blackness. *Here are rows of* seats for people in evening dress, apparently spectators, whose polite applause explains the British and French national anthems that took us by surprise before curtain-rise.

And to these seats they finally return at each last exit; but not before Edward Petherbridge has redeemed his recent Dorothy L. Sayers and revealed that the exaggerated integrity of Molière's principled curmudgeon fits him like a glove.

The quivering Afghan hound sensitivity now has a bloodhound melancholy to it. The *ferocious, mirthless* smile he absent-mindedly shoots his friend while putting the boot in elsewhere evokes a less human don demolishing a student's thesis with casual brilliance. Lightly-bearded, in corduroy jacket, the owner of a country retreat, you can bet, plushly comfortable for all his protestations of moral authority.

Mr Petherbridge makes Alceste more obviously self-deluding than some interpretations, but never topples him into caricature. Nor does Donald Pickering's suave poetaster, while Sheila Ballantine could relish wrinkling her feline claws rather more as Arsinoe – especially with such a target as the length of thigh that Sian Thomas recklessly exposes. In a backless evening gown that stays up by will-power, a hint of bat's wing in the bodice, Miss Thomas looks sumptuous and is very funny. As yet you neither pity her nor are shocked by her social disgrace; but then some of the characterisations need filling out. Ingrid Craigie's Eliante is a trifle colourless and as the *honnête homme* David Horovitch fails to distinguish between civilised normality and mere dullness.

After recent troubles that included political meddling *and internecine mischief-making*, the Bristol Old Vic's co-production with the National Theatre opens a new chapter. This is the first collaboration between the NT and a regional theatre, and promises much.

Martin Hoyle

Ondine

COVENT GARDEN

Viviana Durante is the latest of several greatly talented dancers that the Royal Ballet have nurtured in the 1980s. And this is the season to make her name. *Rhapsody*, the *Don Quixote* pas de deux, *Cinderella, Romeo and Juliet, Capriccio for Piano and Orchestra*: : since October she has clocked up London debuts in the leading roles of each. Now she has added Ondine to the list; her debut in *Swan Lake* follows in May. She has an attractive figure, strong feet, handsome line in arabesque, speed, balance, stamina and harmony.

Yet who is she? Is she a Latin by temperament as well as by birth? She keeps time well; but what does music bring out in her? I don't yet know, and she hasn't yet made this mystery fascinating. I observe certain mannerisms – the mouth often hanging open, the ingratiating smile to the audience. And certain virtues: in her Juliet I loved signs of a flair for compelling the attention of the auditorium – an ability to "breathe in the house," now rare at the Royal Ballet. I regret that I missed her Cinderella. To me her rare blend of attack and delicacy make her finest in *Rhapsody*. *Her technique, like* that of her colleagues, is all wrong for Balanchine's New York *Capriccio* – British dancers are trained to dance in terms of upper and lower body, and so they isolate the pelvis rather than show it as a central area yoking thigh to thorax – but her firm cut-and-thrust dancing makes her its least unstylish component.

In her Ondine I admired her line, her manners, and noted her immense potential, *without believing that this is quite* the role for her. The naiad ripplings of hands and arms weren't organic. A well-studied rendition rather than a deeply felt impersonation. And I wish that this Fonteyn role was being used to encourage in any of its current interpreters certain basic Fonteyn virtues – the decisively quick arrival in *piqué arabesque*, the rich firmness of line from shoulder to thigh, the repose of the neck, and the knack of holding an audience by showing all the internal diversity of a role.

Viviana Durante as Ondine with Anthony Dowell

I say this because Durante could develop in all of these directions; I'm impatient for *her further performances in other parts.* But experience of watching this company robs me of confidence. Like so many Royal dancers, Durante hasn't been encouraged to show you the architecture of a dance phrase (i.e. to remind you why she became a dancer in the first place). In the *Don Q.* pas de deux, in particular, she performs steps more as poses and feats than as coherent dances. I can't blame her for this. The fact is that the Royal Ballet has long shown itself forgetful of the *dance* reasons that once made it great. We've watched too much talent in the 1980s being misdirected into coy manners and fake sensibility; the successful debuts of several possible stars has proved false dawns. Durante's bountiful ballerina potential is all in embryo. It is her subsequent performances rather than her debuts this season that will determine who she is and where she and the company are heading.

Alastair Macaulay

Sungsic Yang

WIGMORE HALL

This 23-year-old violinist won the 1988 Carl Flesch competition, and he has the dauntingly precocious, assured technique we now expect from Korean performers who invade the West. His programme with the pianist Gordon Back on Monday seemed designed, understandably, to show it off – unaccompanied Bach and Ysaÿe, a *Carmen* Fantasy (Franz Waxman's, not Sarasate's) – but also to honour the gentler muses of Chausson and Fauré. There was also the German-Korean composer Isang Yun's *Kontraste* no. 1, which was neither here nor there: modestly conceived, unassertive, grey.

Curiously enough, Sungsic Yang made much the same impression in each kind of music. Big tone and rock-like security, but for some chancy pitch in the Waxman circus-stunts, and yet hardly any showman's flair; sober, honestly musical attention passage-by-passage, but a rudimentary sense of any larger structure. In Bach's noble D minor Chaconne, for example – taken at a dignified tempo which allowed his splendid multi-stopped chords to tell – his firm, unhesitating attack was a pleasure in itself, and only after some time did one begin to realise that it wasn't going to carve any dramatic profile for the whole work. Again with Ysaÿe's Sixth Sonata (virtuoso *in excelsis*), though he executed each fantastical flight with polished ease he seemed to have no overall flight-path in view: eventually the piece came to an end, and that was that.

With Back's practised assistance, Fauré and Chausson got maturer handling and more considered breadth. The former's First Sonata, played in cultivated style, nevertheless missed the bubbling élan which is its most lovable feature. As for the latter's evergreen Poème, it is always something of a trial with mere piano-accompaniment: once or twice I've heard brilliant fingers rescue the reduced piano-score, but Back's rusty trills and tremolos were not of that order. Though Yang's well-arched phrases evinced the proper feeling, the emotional scenario was only vaguely focused; and to hurry muzzily through one of the great, heart-tugging double-stopped passages in the repertoire suggests a culpable (and uncommercial) innocence. His phenomenal fluency with his instrument needs to be matched to a bigger dramatic bite.

David Murray

ARTS GUIDE

March 17-23

THEATRE

London

Fuente Ovejuna (Cottesloe). Wonderful production of Lope de Vega classic by *Cheek By Jowl* director and designer Declan Donnellan and Nick Ormerod. The best National production in this venue since the Bill Bryden company. April 7-12, May 3-6 (928 2252).

Bed (Cottesloe). Imaginative revue for old codgers in pyjamas and a sleeping den as big as the Great Bed of Ware by Jim Cartwright, directed by Julia Bardsley. March 29-April 3, April 13-15, 26-May 3 (928 2252).

Hamlet (Olivier). This mighty, vague Renaissance revival by Richard Eyre for the National Theatre is a disappointment, though Daniel Day-Lewis may improve with experience in the role. Judi Dench is a muted Gertrude, Michael Bryant a superbly busy and dangerous Polonius. Fullish text, but no emotional or intellectual fire. March 22-28, April 12-15, May 2-5, 15-18, May 25-June 1 (928 2252).

Single Spies (Queen's). The highlight of Alan Bennett's double bill is a comic confrontation between Prunella Scales as Her Majesty the Queen and Bennett himself as Anthony Blunt in the royal picture gallery. Simon Callow plays Guy Burgess in a rehash of Bennett's fine TV film An Englishman Abroad (734 1166).

Back With A Vengeance (Drury Lane). Dame Edna Everage, alias Barry Humphries, breezes back to town after a nationwide tour and is not to be missed. Ends April 15 (836 8108).

A Walk in the Woods (Comedy). Alec Guinness and Edward Herrmann in feeble off-duty arms negotiation encounter by Lee Blessing. Guinness, back on the London stage after 10 years, is in subtle virtuoso form as the Soviet veteran of tactical stonewalling and no-dealing tricks (930 2578, cc 839 1438).

The Vortex (Garrick). Maria Aitken and Rupert Everett in brilliant revival by Philip Prowse of Noel Coward's 1924 study of drug addiction and mother fixation. Mannered, excessive, beautifully costumed. A must for yuppies (379 6107, 741 9999).

Mrs Klein (Apollo). Intriguing chat among the child psychoanalysts in Nicholas Wright's hit transfer from the National. Fizzing performances from Gillian Barge, Francesca Annis, Zoë Wanamaker (437 2663, cc 379 4444).

The World According to Mel (Playhouse) Jackie Mason, Jewish stand-up comic who revives the near lost arts of scathingly satirical monologue and vaudevillian timing to the London stage for a limited season. Achingly funny and irreverent. (839 4401)

New York

Shirley Valentine (Booth). Pauline Collins brings her West End triumph to Broadway in Willy Russell's amusing and touching story of a Liverpool woman's awakening in the Aegean Sea. Simon Callow again directs without smoothing any of the Northern English edges that retain an authentic touch.

Jerome Robbins' Broadway (Imperial). Anyone attracted by the notion of a three hours of film trailer previews will adore this compendium of Robbins' directed and choreographed plays of the past 40 years, including On the Town, West Side Story and Gypsy.

Rumours (Broadhurst). Neil Simon's latest comedy is a self-conscious farce, with numerous slamming doors and lots of mugging but hollow humour that misses as often as it hits. Christine Baranski leads an ebullient cast in the inevitable but disappointing hit.

Cats (Winter Garden). *Still a* sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).

A Chorus Line (Shubert). The longest-running musical in the US has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions (239 6200).

Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. It has nevertheless proved to be a durable Broadway hit (947 0033).

Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Washington

Steel Magnolias (Kennedy Center Eisenhower). Barbara Rush and June Lockhart star in this view of Southern life through the antics in a hairdressing salon. Ends April 2 (254 3670).

Beggar's Opera (Folger). This eighteenth century view of London low life by John Gay gets inspiration from its Globe Theatre setting. Ends April 9 (546 4000).

Chicago

Driving Miss Daisy (Briar Street). The touching relationship between a dowager, played in this production by Dorothy Tristan, and her black chauffeur exposes the changes in the South over the past several decades (348 4000).

Steel Magnolias (Royal George). Ann Francis and Marcia Rodd play the leads in this view of southern life from under the dryers in a busy hairdressing establishment (988 9000).

Tokyo

Kabuki. At the National Theatre (265 7411): a double-bill consisting of Futa Benkei (Benkei in the Boat) and scenes from Meikura Nagaya Ume ga Kagatobi (The Wicked Masseur and the Fire Department), about the rivalry between the municipal fire-brigade of Edo (present-day Tokyo) and fire-fighters employed privately (Ends March 27). At Kabuki-za (541 3131), during the matinee at 11.30am, Living National Treasure Nakamura Utaemon VII appears as the spirit of a cherry tree in Seki Noto. The 4pm programme includes Onna Goroshi Abura no Jigoku (The Hell of Oil) about the murder of a woman who owns an oil shop, as well as an amusing dance-piece Bobshibari (Tied to the Pole). Both theatres provide informative English language programmes and earphone guides in English.

Ryvo (The Dragon King). Shimbashi Enbujoh Theatre (541 2211). Vulgar but highly enjoyable production (in Japanese and Chinese) in which plot, about a Chinese boy and a Japanese fisherman who join forces to defeat the dragon king, is less important than acrobatics and spectacle. Directed by and starring kabuki showman, Ennosuke Ichikawa, with over 100 members of his own company and of the Peking Opera Company.

Noh. Hosho Noh Theatre, Suidobashi (946 2752). (Thursday only) Sumidagawa is the Noh masterpiece which Benjamin Britten adapted as Curlew River and which deals with the grief and subsequent madness of a woman who has lost her child. The programme also includes a kyogen comic interlude and a taiko drum solo. Most other Noh theatres are open only at weekends.

Nastasya. Benisan Pit (346 2037). Brilliantly conceived and executed adaptation (in Japanese) of Dostoyevsky's The Idiot, directed by Andrzej Wajda and starring world-famous kabuki actor Tamasaburo Bando.

SALEROOM

Museum buys rare clock

One of the rarest examples of Germanic clockmaking to appear on the market for many years was secured by the Science Museum yesterday. London dealer Philip Whyte, acting for the museum, bid £165,000 at Sotheby's for the previously unrecorded 22in high table clock thought to have been made in Prague around 1620. Though unsigned, the piece features two of the inventions of the leading clock and globe maker Jost Burgi who, in 1604, became Imperial Clockmaker to Rudolf II. His cross beat escapement and remontoire devices radically improved the accuracy – or rather radically reduced the inaccuracy – of contemporary timekeeping.

Only some half dozen of such cross beat clocks are known to exist – one is in the British Museum. This example is unique in having an elaborate if not brilliantly engraved gilt metal case, rather than the more typical unadorned casing used for practical scientific instruments, and is presumed to have been made for a noble client. The clock came from the Chateau de Bouchout in Antwerp, where it has been in the possession of the Plantin family since the early 18th century.

Christie's rediscovery, the Blake-Varley sketchbook of extraordinary visionary heads of historic personalities by Blake, and landscape drawings by Varley, failed to sell when it was offered yesterday. Bidding stopped at £450,000, just below the reserve.

The London trade scooped up the bulk of the top lots of the otherwise buoyant watercolour sale. Hazlitt, Gooden & Fox paid £33,000, well over estimate, for a William Callow's cool "Rialto from the Grand Canal." Another Venetian view, of San Giorgio from the Lagoon, by Edward Lear, was bagged by Agnew for £13,200. What far exceeded expectations was a small, atmospheric view of sunset over Molière's Mausoleum at Pere Lachaise by the recently reappraised Francis Danby. Estimated at £2,500-3,500 it went to Agnew for £17,600. The sale totalled £403,700, with 43 per cent sold (97 per cent not including the sketchbook).

Phillips found a world record price for Victorian painter Frederick Morgan. "Hunt the Slipper," a chocolate-boxy genre painting of children playing, realised three times its lower estimate, £90,200.

Susan Moore

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The brewers' monopoly

BRITAIN'S Monopolies and Mergers Commission has never, in its 40-year history, recommended significant divestments by companies abusing their market position. The most it has demanded have been changes in the behaviour of the monopolists. Yesterday's report on the brewing industry breaks sharply with that tradition. The Commission says no brewer should be permitted to own or lease more than 2,000 UK outlets. In other words, the six national brewers should divest themselves of about two thirds of their retail business.

The Commission also recommends the abolition of all future "loan ties" – arrangements whereby brewers offer subsidised loans in order to *secure the exclusive sale of* their products. It says a tenant should be free to purchase at least one brand of draught beer from a supplier other than his landlord and recommends that no restriction should apply to the sale of low-alcohol beers, wines, spirits and soft drinks.

Lord Young, the Trade Secretary, says he is minded to accept the recommendations but will first hold discussions with the European Commission. This is necessary because an EC regulation (which ironically took effect on January 1) exempts the brewing industry *from the normal EC anti-trust* provisions. Last week, the EC announced a review of competition rules in brewing. But this could be a stalling tactic. The exemption still stands and an attempt by the UK Government to prohibit loan ties or to restrict a brewer's freedom to lease public houses could be challenged in either the UK or European courts. (The EC regulation would not present a problem where publicans are employees of brewers.)

Vertical ties

The extent of vertical integration of the British brewing industry is not in question. The Commission estimates that more than 87 per cent of pubs are tied by ownership, tenancy agreements or subsidised loans. But does this do much harm? The brewers can argue that the British beer market is less concentrated than many other domestic markets and less concentrated than many beer markets overseas (in all there are 200 brewers with the top six accounting for 75 per cent of sales). Moreover, economists increasingly argue that vertical ties can be pro-competitive rather than anti-competitive. The arrangements, after all, are entered into willingly by both parties.

Regional variations

But the fact that Britain's beer market is not the world's most distorted does not mean that it cannot be improved. The Commission is right to emphasise the large regional variations in beer prices – which reflect the concentration of local ownership of outlets. In many areas, independent brewers' access to the retail *market is severely limited and* consumer choice is thereby restricted.

The big brewers' excessive power at the retail level may also be reflected in the high prices charged for lager – a heavily advertised product which is displacing local ales and bitters. It could also account for some of the steep real increases in all beer prices in recent years.

The prohibition of all forms of vertical tie would clearly have been counter-productive: the small and medium-sized brewers rely on their tied *estates and would not survive* in open competition with the national brewers. The ceiling of 2,000 retail outlets per brewer suggested by the Commission, coupled with the prohibition of new loan ties, looks a clever compromise. It attacks the monopoly power of the national brewers without compromising the position of small entrants. But divestment on the scale recommended will cause considerable disruption in the industry. There is also something worryingly arbitrary about the nature of the proposed ceiling.

Yet the proposals on balance look likely to promote consumer choice and achieve a better balance of power in brewing, wholesaling and retailing. It is refreshing to see the British competition authorities taking a tough stand in a monopoly case. It would be ironic if EC law (which in general is strongly pro-competitive) in this instance were to stay Lord Young's hand.

Realism in Yugoslavia

THREE CHEERS for Mr Ante Markovic who last week began his term as Yugoslavia's new Prime Minister with a brutally frank warning to his lotus-eating countrymen that the road back to economic prosperity will be disagreeably bumpy.

Mr Markovic's admission that the closure of unprofitable enterprises will bring redundancies on a scale large enough to exacerbate social tensions will not render his programme of economic reform any more palatable to those already striking over their falling living standards. But Yugoslavs may now be sufficiently disillusioned with the muddled Micawberism which has brought them to their present economic pass to stop listening to those who promise reform without tears.

Barely a decade ago Yugoslav inflation was 10 per cent. Today it is nudging 350 per cent. Its implacable rise has induced a succession of "radical" reform programmes each more market-oriented than its predecessor, often introduced under pressure from the stern, ever-watchful International Monetary Fund (IMF), and accompanied by a rousing chorus of "there is no alternative."

None has had any noticeable impact on the economy. The Yugoslavs, who were publicly blaming their politicians and their unworkable federal system long before the other nations of Europe incorporated the word glasnost into their various languages, have yet to draw the obvious conclusion from their clear-sighted analysis of their economic predicament.

Nationalist passions

On the contrary, an increasing number of Serbs are listening eagerly to their Communist Party chief, Slobodan Milosevic, whose advocacy of reform discreetly omits any reference to its social consequences. Mr Milosevic – known more for his skill in whipping up nationalist passions than for his ability to deal with the consequences – has been building up a following among the more rabid Serb nationalists in the troubled province of Kosovo; the majority Albanian community there is in the front line of a more widespread struggle to prevent Serbian domination.

The Serbs do not appear yet to have rumbled their transparently ambitious party chief. Under his stewardship the Serbian party, government and press have been taken over by a nationalist movement whose vigour threatens not only to raise the temperature in Kosovo, but also to ignite other areas of ethnic tension, distracting the federal government and sapping its strength to deal with the economic crisis from which most of the other problems derive.

Choice of enemies

The new Prime Minister's early public statements revealing sympathy for the Serb campaign to re-establish control over the province rather than for the "Albanian counter-revolutionaries" indicate a valorous discretion in the choice of enemies. Mr Markovic clearly intends to concentrate his energies on the economy, avoiding, if possible, the nationalist distractions which he has identified as a brake on economic progress.

His frank acknowledgement of the social problems likely to result from economic reform has yet to be matched by an admission that the country has neither the resources nor the institutions to deal with the consequent poverty and unemployment, and by an account of his plans for dealing with these and related problems.

Another appeal to Western creditors and the World Bank and the IMF may be around the corner. Mr Markovic's record as party leader in Croatia is encouraging, but an uncertain guide to his capacity to master the infinitely more complex federal job. Too often in the past debt has been rescheduled and new credit granted on the basis of impressive reform programmes which never developed beyond the stage of good intentions.

There appears to be no compelling argument for giving Yugoslavia the benefit of the doubt yet again. Mr Markovic's chances of out-flanking the muddlers, the tribal chieftains, and the *downright corrupt*, might well be enhanced by a little judicious national belt-tightening.

Stephen Fidler examines tensions between the IMF and the World Bank

A case of sibling rivalry

Relations between the International Monetary Fund and the World Bank, the twin children of the postwar economic settlement, have deteriorated into open squabbling – at a time when fruitful collaboration over the Latin American debt issue has again become an urgent necessity.

Partly as a result, some financial figures have begun to say that it is time to take a fresh look at how the institutions work. In the waning days of the Reagan Administration, for example, Mr George Shultz, the outgoing Secretary of State, called for "a searching and back-to-square-one examination" of the Bank and the Fund (as well as the General Agreement on Tariffs and Trade).

US government officials now say that Mr Shultz was speaking in valedictory mood, and his views did not reflect a US commitment to transform the institutions. And insiders say that public squabbles have not affected the wealth of routine co-operation that goes on between staff of the two organisations.

But Mr Shultz had touched a nerve. The rift between the two institutions – which face each other across 19th St in central Washington – had become increasingly hard to ignore. "They've been wider apart over the last 12 months than I've ever seen them," said one close observer. In the language of the former chairman of the Federal Reserve, Mr Paul Volcker: "I presume that these institutions are *across the street from each other for a* reason. But sometimes that street seems pretty wide. Wider than it should be."

The roots of these arguments date back 15 years. When the Bretton Woods system of fixed currency parities ended in the early 1970s, much of the original raison d'être of the IMF – created after the Second World War to oversee the world's monetary system – disappeared. The institution spent much of the rest of the decade seeking a role in a world of floating exchange rates. That role did not fully become clear until 1982 when Mexico declared that it could not meet the obligations on its foreign debts.

Sensing a threat to the security of the international financial system, the Fund, led by Mr Jacques de Larosière, moved into the forefront of the crisis. The Fund made loans to overcome what were then believed to be the short-term balance of payments difficulties of the highly indebted developing countries.

By 1985, the perception of the crisis as "a short-term liquidity problem" had changed. As it became clear that the resolution of the debt problems of the developing countries would take years, so the banking system began to be perceived as better able to withstand any shock from a debtor default.

The shift in emphasis was heralded in the same year by Mr James Baker, the US Treasury Secretary, at the joint annual meeting of the two institutions in Seoul. The debtor countries should be allowed to "grow" out of their debts, he said, helped by new finance from the World Bank and commercial banks.

In 1980, the World Bank started to make so-called structural adjustment loans. (Until then, as a development institution founded to rebuild infrastructures devastated by the Second World War, it had focused on lending for projects such as dams or roads.)

The IMF was involved in stabilisation – managing reductions in spending to bring about an orderly adjustment of domestic demand to the reduced level of external resources. The World Bank's structural adjustment loans were meant to encourage changes in relative prices and institutions to make the economy more flexible and efficient.

Discussions of policy: Barber Conable (left), and Michel Camdessus

It soon became obvious that a ring *fence could not be drawn around each* institution. Inefficiencies in relative pricing were having an impact on the effectiveness of IMF stabilisation policies, while the World Bank's structural adjustments would not work in the wrong macroeconomic framework.

Mr Onno Ruding, the Dutch Finance Minister who is also chairman of the IMF interim committee, said in Washington last month that there had been "misunderstandings and irritations" on the overlap.

It is a sensitive issue. The thought of the Bank moving into the IMF's bailiwick has worried the Fund's staff. It has also caused concern to some Western governments, including Britain, which do not want the IMF to lose its "primacy" in matters macroeconomic.

Yet this is an increasingly difficult line to follow as the volume of lending by the World Bank rises and its role in the resolution of the debt crisis grows. Debt has become a problem of development rather than one of international finance. In Mr Volcker's words, "a stronger role for the Bank is entirely appropriate."

The differences between the two came to a head last September when Mr Barber Conable, the World Bank President, announced at the annual meetings of the institutions in Berlin the go-ahead for a total of \$1.25bn (£727m) in loans for Argentina.

The announcement was made only weeks after talks between the IMF and the Argentine government had collapsed in Buenos Aires. As one central banker said at the time: "The World Bank has had its foot on the accelerator while the IMF has been *pressing on the brake.*"

The agreement signed by the Bank with Argentina contained macroeconomic goals – including a minimum target for the fiscal deficit which was more generous than the Fund believed necessary.

Officials and certain board members of the Fund were seething. Less visibly, so were officials of the Bank, angry that once again political interference – this time from the US administration – had pushed them into making what many considered ill-advised loans.

Worse, in the eyes of some Bank officials, was the way in which the US had second thoughts in public about the Argentine loans, pulling the rug from under Mr Conable's feet.

In the event, only about \$120m of the money was drawn and the Bank said last month it would not be able to disburse the remainder of the \$750m in non-project loans announced by Mr Conable. Meanwhile, an agreement between Argentina and the IMF is as remote as ever.

Mr Conable, already being blamed by Washington for not taking up Baker's call for a more assertive role in the debt crisis, appeared to have stuck his neck out for his friends in the US administration and paid the price.

Institutional problems are not the only ones to have beset the organisations. The mix of personalities at the top has not always worked in favour of the best co-ordination between the institutions and the principal shareholder governments.

In 1982, Mr Larosière at the Fund and Mr Volcker at the Fed combined to provide effective leadership at the *centre of the crisis. Mr Larosière, now* governor of the Bank of France, is an austere Frenchman of high intellect, who, in driving his subordinates hard, won respect rather than affection.

His successor, who took over in 1987, was a fellow graduate of the élite Ecole Nationale d'Administration, Mr Michel Camdessus. Although also a former French Treasury director and apparently from a similar mould, Mr Camdessus's style – ebullient and mercurial – contrasts with his predecessor. And whereas Mr Larosière had been identified with French conservatives, Mr Camdessus was linked with the Socialists.

He was quick to push the Fund towards more lending in Africa, which was seen as a special interest. More fluent in Spanish than in English, he had been supported in his bid for the office by developing countries which had seen him in action as the head of the Paris Club

But even though the Americans had backed him at the end of a bitter election struggle against the alternative candidate (Mr Ruding of the Netherlands), it soon became clear that the chemistry between Mr Camdessus and the US Treasury and its representatives was not good. The Reagan administration developed a deep suspicion of his closeness with the French and Japanese and what it saw as their *dirigiste* instincts.

In May 1987, Mr Volcker left the Fed and the cohesion of leadership in responding to the debt crisis further weakened. At the time, however, the newly appointed Mr Conable, a respected, likeable but domestically oriented former Republican Congressman, was obsessed with sorting out the Bank's internal problems and reducing staff numbers. With the US suspicious of Mr Camdessus, and little political capital for US politicians becoming too deeply involved, the developing country debt issue was allowed to drift.

The current relationship between the Bank and the Fund is guided by a memorandum which took two years to thrash out and was eventually signed in December 1986. The need for a redefinition is widely accepted. The issue is being discussed in a committee of 10 leading countries, led by Lamberto Dini of the Bank of Italy. Its conclusions are supposed to be ready for discussion in late May or June, but are said to be unlikely to draw a clear line between the institutions.

Both the interim committee of the IMF and the development committee of the Bank will be discussing the issue at their spring meetings which take place in Washington in early April.

Disagreement remains. The Bank does not support the view expressed in a letter in January from Mr Camdessus to the Bank in which he insisted that in the case of disagreements over the economic conditions to be attached to loans, the IMF should be the final arbiter. This approach – which would be seen as an extension of the Fund's current role – would also attempt to define a clear line between the two institutions, without any overlap.

Yet officials at the Bank clearly believe that Mr Camdessus's view means an unacceptable right of veto for the Fund over Bank activities. They argue that the Bank has a different approach to conditionality which focuses more on specific policy actions, rather than on economic targets which can be upset by exogenous factors. The great dislike of the Fund in many debtor countries means that the Bank often has greater leverage. A degree of overlap of the two institutions is inevitable, although it may require some modest redefinition, and can be handled on an *ad hoc* basis, they believe.

In the background, in recent years, *has been the nagging issue of the official* limit on the Fund's "quotas", or capital resources. Until earlier this month, the US administration had consistently resisted calls for an increase in quotas, partly because of concern about the growth of Japanese influence that such an increase would imply (Japan would replace Britain as the second largest shareholder).

US officials still argue that passage of time alone does not justify a quota increase. However, in the speech earlier this month in which he outlined new US proposals aimed at lessening the debt burden of problem debtor countries, Mr Nicholas Brady, the US Treasury Secretary, opened the door to the possibility of a quota increase. The speech envisaged a role for financial support from the Bretton Woods institutions for the debt reduction process, and possibly a strengthened role for both of them.

That would depend, however, on developing a clear role for the Fund into the 1990s, Mr Brady said. Given the context of the remarks, the support offered by Mr Camdessus this week to the Brady proposals is hardly surprising.

It allows him both to map out a broader role for the Fund into the next stage of the debt crisis and improve the chances of US agreement to a quota increase. If Mr Camdessus can achieve success on these issues, and make progress in resolving the squabbles with the Bank, the prospects for effective leadership on the debt issue from the two sister institutions would look considerably brighter than they did even a few months ago.

OBSERVER

Keeping the dons in line

■ Diana Warwick, the head of the dons' union, is coming to terms with the turbulent transformation of her previously quiet backwater.

The 44-year old general secretary of the Association of University Teachers (AUT) is preparing to marshal her 30,000 academic troops for the final round of their increasingly bitter pay dispute – making their exam boycott bite next term, unless the vice-chancellors improve their 6 per cent offer or the dons throw in the towel in the ballot next month.

Since the boycott was launched in early January, Warwick has been addressing hundreds of dons at a time, during university visits designed to keep her traditionally docile members solid.

Yet Warwick is not one of nature's militants. She is an eminently rational and approachable figure, who admits to being surprised by the strength of feeling among the dons: more a Brenda Dean than an Arthur Scargill of the campuses. Even the activists in her association are quite different to those in industrial unions. They listen respectfully when members of the 200-strong governing council declare themselves to be Tory supporters.

Of her own position in the Labour Party, Warwick says: "I'm now a very straightforward Kinnock supporter," before quickly adding that such a description does not signify very much any more.

A trade union official since graduating from Bedford College, London, she arrived at the AUT six years ago with a reputation as a moderate won in the bitterly factionalised Civil and Public Services Association. Outside the union, Warwick has the conventional middle-class *interests of her* conventional middle-class members – going to the theatre and opera, and work for the British Council and the Commonwealth Institute. The once working-class girl from Bradford also rides.

Even her adversaries across the negotiating table accept that her prestige has been enhanced by her conduct of the dispute so far, though she will be tested as never before if the boycott stretches into the summer.

Warwick is not thinking beyond then about her own position: it is not obvious where you go next, if you are one of the handful of women ever to have run a British trade union. She is, however, an obvious candidate for the General Council of the TUC when the organisation of the Council is reformed next year.

"I wonder what nuclear waste is like to burrow through."

Spirit of IEA

■ The Institute of Economic Affairs, which some people say has passed its peak, remains influential. The proposals in the Government's green paper designed to erode the power of the pre-entry closed shop are remarkably similar to those in an IEA paper by Charles Hanson and Graham Mather, *the Institute's* General Director, published in March last year.

Hanson and Mather argued that the extent of the informal closed shop was much greater than generally supposed. A survey commissioned by the Government now supports that view. They also said that potential employees who could prove that they were discriminated against for declining to join a trade union should be eligible for compensation of £10,000. The green paper suggests £8,500: not far off.

Warm and dry

■ Bill Foggitt, the Thirsk weatherman, was feeling seasonally optimistic on the first day of spring yesterday and forecast a warm dry summer. He did the same last year, saying there had been previously three wet summers and that a fourth was unlikely. This year, he says that with four wet *summers* in a row, a fifth would be unprecedented.

He does not, however, see much improvement until after Easter. "I think Easter will be rather wet and cold with perhaps some sleet and snow," he said. "I don't want people sitting in the fields round about and getting pneumonia because of me."

The wet March is not helping Foggitt, since it has soured the local farmers who like dry weather at sowing time. "They were all very pleased during February, but it's a while since any of them bought me a pint in the Three Tuns," he said.

The farmers have a saying: "A peck of March dust is worth a king's ransom," and Foggitt has been unable to deliver so much as a speck, let alone a peck, despite an exceptionally dry winter. His December rainfall measurements were 0.66 ins, 1.66 ins below average. January rainfall was 0.38, 1.94 below average, though February showed a *slight improvement* to 1.94 against an average of 1.76.

Nothing has happened to the frog-spawn in his neighbour's pond since it was laid remarkably early on February 17. It would not normally have such a lengthy gestation period, but Foggitt believes the tadpoles are "marking time" to see themselves through the cold spell.

His fame is such these days that he has been asked to open a bakery in Thirsk on Thursday. He said: "If the the weather is good I shall use the line about 'the sun always shining on the righteous'. I haven't thought about what to say if it is raining."

Minorco wins

■ Minorco duly won the auction for the piece of specimen ore in aid of the Vikki Harris Laser Fund at St Bartholomew's Hospital in London.

Perhaps with an opening offer of £10,000, it was always likely to do so, though we should remember that Minorco always said that it would donate the £10,000 even if it *was eventually outbid.*

Some of the Minorco directors have gone on holiday, pending developments in another bid. Our thanks will reach them one way or another. Thank you also to Charles Wyatt, who gave us the ore in the first place and made the auction possible. The laser machine should now be within reach.

Frustrated

■ Graffito in an East End social security office: "I wanted to be a watch repairer, but then I had second thoughts." And another: "I wanted to be an anarchist, but I didn't know the rules."

Michael Prowse argues that the Government's proposed health care changes are badly flawed

Why Britain's doctors are up in arms

This time last year Mrs Thatcher's Government was congratulating itself on having seized the initiative in the public debate about the state of the National Health Service. A wave of protest about ward closures and untreated patients was stopped in its tracks by the seemingly simple expedient of announcing a ministerial review of the NHS.

Yet a mere six weeks after the publication of the review's outcome — the white paper Working for Patients — ministers are back on the defensive. The British Medical Association (BMA) has condemned the reforms and appears to have the staunch backing of staff throughout the health service. Many health economists have published critical appraisals of the white paper. Opinion polls indicate the reforms are unpopular with the general public.

Mr Kenneth Clarke, the Health Secretary, has tried to brush off the criticism. He has accused doctors of "feeling for their wallets" whenever the word reform is mentioned and dismisses the BMA as just another trade union fighting for its members' privileges. Having already spent nearly £1.5m marketing the reforms, he is preparing for yet another promotional tour. What has gone wrong? Why is the white paper so unpopular?

Some of the opposition is a natural reflection of the Government's failure to consult. When Mr Norman Fowler, Social Services Secretary in the mid-1980s, decided to embark on the biggest reform of social security since Beveridge, he held public meetings and invited interested parties to contribute ideas for reform. Proposals put forward in a green paper were substantially amended in the face of criticism. (For example, the state-earnings related pension scheme was scaled back rather than abolished.)

But the biggest reform of health since 1948 has been handled much less adroitly. The names of working party members and the terms of reference of the NHS review were not made public. Meetings were held in secret. The medical profession was not invited to participate nor were independent health economists consulted — except those known to be Government sympathisers.

Mr Clarke then burst forth with a white rather than a green paper. This and the accompanying "working papers" are flimsy documents, almost bereft of numbers and detailed analysis. (Mr Fowler's green paper and appendices were far weightier.) Yet despite its lack of careful research, the Government is proposing a new and untested structure for health care — one that has no clear parallel abroad. A near-mutiny from the medical profession in the face of these "non-negotiable" new structures is surely unsurprising.

The white paper's philosophy is simple enough. Competition has improved efficiency and proved beneficial for consumers in the rest of the economy. The NHS will benefit from similar medicine. Mr Clarke, therefore, is trying to create a market in health care, albeit one that is initially largely internal to the NHS.

Health care is to remain funded mainly from general taxation. Services will remain largely free at the point of consumption. But the way resources are allocated within the NHS is set to change radically. Out goes planning and rationing by managers and doctors; in comes competition and the price mechanism.

District health authorities will be funded according to the population they serve rather than the services their hospitals provide. They will be expected to trade with each other and the private sector in order to provide treatment at the lowest possible cost. In the old NHS, facilities were set up to meet the local needs of patients; in the new NHS, patients will be expected to travel to find the cheapest care.

To add bite to the competition, large hospitals will be encouraged to withdraw from the NHS bureaucracy and become "self-governing" trusts. The trusts will be free to set their own pay and conditions. They will earn their living by buying and selling services from the rest of the NHS and from private hospitals.

In primary care, general practitioners serving large populations will be encouraged to accept cash-limited budgets. The idea is that budget-holders should buy hospital services for their patients, from the institutions which offer the best quotes. Such GPs will be free to plough back into their practices half of any savings they achieve. In addition, the income of all GPs is to be made significantly more dependent on capitation payments — thus determined primarily by the size of patient lists as opposed to the quality or quantity of care provided.

These proposals betray an extraordinarily narrow vision of health care. Officials have constructed a competitive model for the NHS on the assumption that medicine is mainly concerned with short episodes of acute illness. They have designed a trading regime suitable for the easily costed elective surgery already available in the private sector.

But such an approach ignores the fact that the challenges facing the NHS in coming decades lie mainly in areas where health care cannot be neatly priced, packaged and sold. The paper has virtually nothing to say about the management of chronic illness and fails to address the needs of groups such as the elderly, mentally ill, mentally handicapped and disabled. Yet such patients occupy more than 50 per cent of all NHS beds. And in acute wards, the elderly account for more than 40 per cent of beds.

Demographic trends will ensure that the proportion of very elderly people in NHS hospitals rises still further. Such patients typically need prolonged treatment. They cannot travel in search of the cheapest deals; they require continuity of care after leaving hospital. They are not the stuff from which a thriving health market can easily be fashioned.

The proposed reforms also threaten to undermine many of the NHS's greatest strengths. Anybody reading the white paper would assume that the NHS must be chronically inefficient, such is the focus on measures to reduce costs. The reality is that Britain devotes only 5.9 per cent of GNP to health care compared with 11 per cent in the US and 7 to 9 per cent on the Continent. Yet Britons are not noticeably less healthy.

The NHS is a "best buy" because it maintains effective control of medical salaries (doctors in the US and West Germany earn twice as much relative to per capita incomes) and because administration costs are exceptionally low (around 4½ per cent of the total compared with 21 per cent or more in the US's competitive medical system).

Both pillars of cost control are set to crumble. The self-governing hospitals will be free to set their own pay rates. As a recent LSE study points out, this means the NHS's monopoly power as a purchaser of skilled labour will be broken. But the BMA will remain a monopoly supplier of doctors. The likelihood is that salaries will soar in the opted-out sector and force compensating increases elsewhere. If the Treasury fails to accommodate this pay inflation, services for patients will inevitably suffer. But if expenditure is allowed to rise, the consumer will get less value for money.

Administration costs are also set to soar. The problems were spelled out last week at a conference organised by the Oxford Review of Economic Policy. Ms Lois Quam, a US health economist, pointed out that health authorities would have to invest in an elaborate cost accounting system to monitor the flow of patients between competing units.

In a competitive system, she said, the patient becomes an accounting unit: each injection, plaster and therapy must be financially recorded and costed. Bills will have to be prepared and sent to the relevant health authorities, GPs, self-governing hospitals and insurers. The competing units will also have to shoulder heavy legal and advertising costs.

All this will require a big expansion of the general management bureaucracy. It will mean more managers, accountants and clerks — and thus, for a given health budget, fewer doctors, nurses and operating theatres.

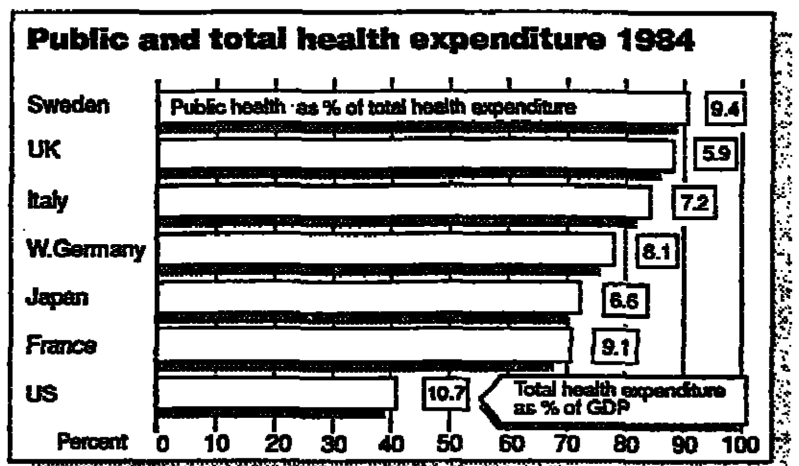
But while competition looks certain to raise costs, there is no guarantee that it will lead to improvements in the quality of care. Ms Quam points out that the white paper analysis rests on two fundamental assumptions. The first is that the price mechanism is an effective means of allocating resources in health care. The second is that cost and patient throughput indicators are effective measures of health care performance.

Neither assumption has any theoretical or empirical backing. The price mechanism is not efficient in health care because patients lack the information required to act as sovereign consumers. They lack knowledge about the timing of their health care needs, the level and type of treatment required and the effectiveness of treatment. The informational asymmetries are deep-seated: even GPs, for example, are poorly placed to evaluate the merits of many specialist treatments. The upshot is that doctors and managers — the suppliers of health care — determine the type and amount of health care consumed.

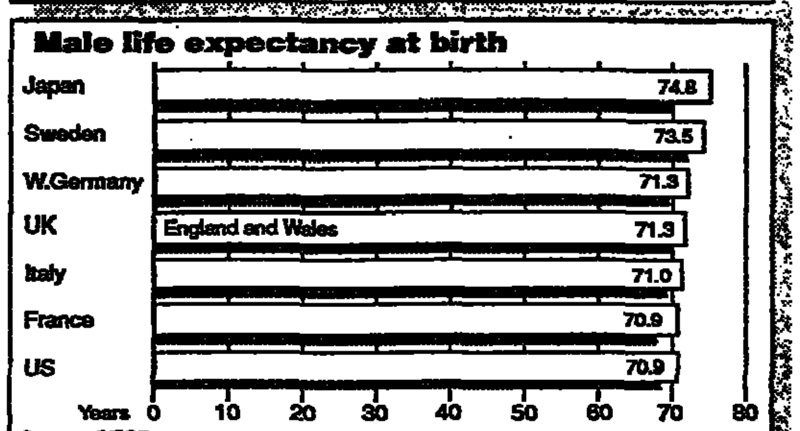
Measures of expenditure and patient throughput are not effective proxies for clinical effectiveness because they are not measures of medical outcomes. A true health production function would measure the amount of "healthfulness" produced by a given expenditure on treatments. This would require extensive monitoring of patients in the weeks, months and years following treatment. No such analysis has been carried out; the authors of the white paper thus have no idea how to raise efficiency in the NHS.

In the past, the NHS's goal was to satisfy health care needs as equitably as possible. The future will be very different. Co-operation, which is efficient in health care, will be replaced by competition, which is inefficient. Financial outcomes, which are easily measured, will increasingly take precedence over health outcomes, which are not. The old and chronically sick are likely to receive even less attention than today. And costs will rise for everybody.

Public and total health expenditure 1984



Male life expectancy at birth



Source: OECD

LOMBARD

Reckless action and good advice

By A. H. Hermann

A WORKING group established by the member states of the International Tin Council (ITC), which became insolvent in October 1985 leaving banks and brokers with claims totalling £900m, has now submitted a plan for settlement to the governments.

This may bring to an end a protracted and costly litigation in English courts and bring nearer the reopening of the London tin market. However, even if the claims of the creditors are satisfied, the damage will remain which the ITC litigation has done to the trust which people have in the law's ability to enforce obligations, entered into in the course of ordinary business by governments or an international body created by them.

First, there is last year's decision in the Court of Appeal which, by majority, upheld the defence of the member states that they are not liable to the creditors of the ITC in contract as the ITC should not be viewed as an unlimited partnership and, anyhow, whatever obligations they may have to replenish the funds, these are a matter of international law and cannot be adjudicated in English courts.

This was pretty strong stuff, considering that English company statutes explicitly refer to the unlimited liability of those partners in a business enterprise which is not registered as a limited partnership, and that on other occasions, the Court of Appeal has no hesitation in applying foreign law.

We now have a second decision. Having heard in the Court of Appeal that they could not make a claim on the basis of contract but that the behaviour of the debtor bordered on fraud, the creditors came to court again last month. They argued that by authorising the taking of loans and purchases of tin on credit, the member states were saying, by implication, that there would be funds available for repaying the debts. As the member governments made no provisions for replenishing ITC funds — which they are still unwilling to do — and as they knew that the ITC could not regain solvency by sales from its stockpile, the creditors argued that the governments acted recklessly or even deceitfully. Either would amount to fraud.

These were preliminary proceedings about legal issues and Mr Justice Evans held that the creditors had an arguable case which could go to trial. He rejected the claim of sovereign immunity as the deals were clearly of a commercial nature. There was nothing in the claims on which the English courts could not adjudicate, he said.

However, the British Government, represented by the Department of Trade and Industry, submitted — at the last moment and with the approval of the Attorney-General — that the action against them is barred by a 1677 statute. This provides that information as to credit-worthiness (in this case of the International Tin Council) must be given in writing and signed if it is to create a liability for the informant. This was accepted by the judge and the action against Her Majesty's Government was stayed.

It is questionable whether this technical defence fits as the British Government was taking part in running the ITC, and not merely informing on its credit-worthiness. But even if it did fit in a grammatical sense, it is entirely contrary to the entire spirit of English company and insolvency legislation, where not only directors, but even those who exercise influence can become liable in case of insolvency. It is also contrary to the principle of good faith which should override and prevent an abuse of legal technicalities.

Such abuse of law detracts from the confidence which the British Government has always enjoyed in the market-place. It also detracts from the confidence which traders place in the legal system.

Taken with the misconceived bloody-mindedness of trying to prevent the publication of the book Spycatcher — resulting in the greatest possible publicity and earning the Government a forceful rebuff from the Law Lords — this raises the question of the quality of advice the Government is receiving from its legal officers and of the maturity of its political judgment in accepting it.

LETTERS

Blame is shared by all

From Professor H.W. Singer.

Sir, Your editorial "Glimmer of hope in Africa" (March 10) was a judicious review of the recent report by the World Bank and the United Nations Development Programme on Africa's adjustment and growth in the 1980s. Many will share your evident hesitation in accepting the optimism of this report.

You rightly point out that "what is missing is an equally honest assessment of what the World Bank itself was doing while all this was going on." The fact is that neither the World Bank nor the International Monetary Fund (IMF) nor anybody else did anything at all while this was going on — that is, during the crucial years 1973-1982 while the debts were building up, and an *untenable illusionary growth* was maintained in the developing countries.

In fact, everyone was happy at the time: the Organisation of Petroleum Exporting Countries (OPEC) was happy because its member countries got their financial surpluses into *safe* investments in the commercial banks of the US, UK and Switzerland; the commercial banks were happy because they could increase their profits by recycling the OPEC deposits into developing countries; developing countries were happy because they got unconditional money practically thrown at them without need for detailed negotiations; the World Bank and IMF, as well as their masters in the Organisation for Economic Co-operation and Development governments, were happy because the international financial system was kept going and there was no need for new initiatives or intervention.

Admittedly this was not what Keynes had imagined the role of the Bretton Woods institutions to be. But the blame for letting the situation go on for so long and finally getting *out of control with the 1982 repudiation* of debt payments by Mexico must be shared by us all, not excluding the World Bank, but by no means limited to the World Bank.

H.W. Singer,
Institute of Development Studies,
University of Sussex,
Brighton, Sussex

The Singapore Government and the English legal profession

From Mr Anthony Lester.

Sir, *Justinian's column* about the Singapore Government's ban on my appearing in their courts (March 20) was written on the basis of the Singapore Government's side of the story. The truth is rather different.

At no stage have I interfered in the domestic politics of Singapore or "mixed up a human rights crusade with legal duties to the court."

My talk at a private seminar at the School of Oriental and African Studies (given under Chatham House rules) was misrepresented and distorted, as the law faculty made clear to the Singapore Government. I have never sought to advance my client's case in any political or other forum. It would have been improper for me to have done so, whether under English or Singapore custom and practice.

As for the allegation that I put improper pressure upon the Singapore Government by obtaining the support of the Foreign and Commonwealth Office, that support was sought and given not for my client's case but in an attempt to have *my ban removed by quiet* diplomacy. The Singapore Government's response was: this animal is dangerous; when he is attacked, he defends himself.

It is not for me to advise the Benchers of the Middle Temple about Justinian's suggestion that they should "disbench" Lee Kuan Yew as Honorary Bencher. However, as a new victim of Lee Kuan Yew's vindictiveness, I do not think that an eye for an eye is the appropriate response.

Lee Kuan Yew was an outstanding legal scholar at Cambridge. He has achieved economic miracles for his nation, and is a popular and formidable politician. It is a tragedy that he and his colleagues no longer respect the Privy Council or the English legal profession. His treatment will not enhance his reputation in the Inns of Court. However it would be a mistake to emulate his worst defect by being vindictive towards him.

Anthony Lester, QC,
2 Hare Court,
Temple, EC4

A brave and decisive bear

From Mr D.H.A. Harrison.

Sir, The slur on the reputation of A.A. Milne's bear in your leading article ("The missing kulak," March 20) cannot go uncorrected. It is unfair to compare Mr Gorbachev's decision-taking difficulties to those of a brave and, on occasion, decisive animal.

Incapacity to decide where to start was, of course, the fate of "an old sailor my grandfather knew." Many readers will be reassured to remember that despite reaching a state of catatonic inaction he was, eventually, saved.

D.H.A. Harrison,
Woodcote Lodge,
West Horsley,
Leatherhead, Surrey

New constructive relationships

From Professor N. Bosanquet.

Sir, Your articles on the Korean divide (March 21) point towards new constructive relationships, especially between South Korea and Europe, where rapid growth is creating similar problems in environment, economic policy and social affairs. Like Britain, South Korea faces major *decisions in financing and organisation* of its health services.

South Korean membership of OECD could provide a context for new relationships and the UK Government could give a lead in promoting this.

N.F.G. Bosanquet,
Royal Holloway and Bedford New College,
Egham, Surrey

Support for start-ups

From Mr David E. Marlow.

Sir, Lex (March 14) states a commonly heard view about venture capital: "It is just as hard as ever to raise £300,000 for a brand new idea."

There are some members of the venture capital industry who are not willing to take on the higher risks inherent in start-ups and do not have the long-term view needed for funding them successfully. Your statement is not valid in the case of 3i. Backing management start-ups, which we define as companies started by experienced managers, is a major part of our business. In our last financial year we invested in 200 companies in their early stages and 80 per cent of these received amounts of less than £300,000.

Start-ups are risky for everyone, not least the individuals who stake their future on them. We have recently identified the factors which differentiate successful start-ups from unsuccessful ones and are using this knowledge throughout our UK offices to encourage management teams to *achieve the independence and* financial rewards that a start-up offers.

David E. Marlow,
3i Group,
91 Waterloo Road, SE1

This railway is a survivor

From Mr Denis Grimshaw.

Sir, I refer to the article by Kieran Cooke ("Attacks may signal end of line," March 13). Sadly, bombs and bomb threats in Northern Ireland are not unusual, and the railway system in the province has received much more than its fair share of such attention in the past.

Despite the many spates of incidents directed against the railway in the past 20 years, the *Belfast*-Dublin line has continued to survive. Indeed, it has prospered, with considerable increases in passenger patronage and freight tonnages in recent years, encouraged largely by improvements to the quality of service provided, including a significant reduction in journey time.

May I assure your readers that despite the pessimistic tone of Mr Cooke's article, it is the *declared intention of* both railway companies involved to continue to operate, develop and improve the Belfast to Dublin line in the future, which is once again operating normally at the time of writing.

Denis Grimshaw,
Northern Ireland Railways Company Ltd,
Central Station,
East Bridge Street, Belfast

FINANCIAL TIMES
Wednesday March 22 1989

Giant-killer aims to axe Wright

Lionel Barber on the Speaker who faces a firestorm of criticism

MR JIM WRIGHT was always likely to strike sparks when he became Speaker of the US House of Representatives two years ago. Restless, headstrong and heavy-handed in his use of power, Mr Wright has now run into a firestorm of criticism which could force him out of office.

A nine-month investigation by the House Ethics Committee into his financial dealings appears to have uncovered material far more damaging than previously predicted. Although the 450-page report remains secret, Mr Wright himself has conceded that his future may not be as secure as once thought.

"I don't have to be Speaker," he told reporters recently, a remarkable admission for a man who once dreamed of following his fellow Texan – Mr Sam Rayburn – as one of the most powerful and respected Speakers of the 20th century.

Mr Wright's immediate fate lies with the ethics committee, a panel of six Democrats and six Republicans which has spent more than $1m investigating charges of lapses in personal financial dealings and lobbying activities going back more than a decade.

The convening of a House Ethics investigation is a rare event in a town where lawmakers have a habit of excluding themselves from the provisions of the law. It has become fashionable, therefore, to portray Mr Wright as a victim of the "moral McCarthyism" which swept Washington this month when the Democratic majority in the Senate rejected Mr John Tower as Defence Secretary on the grounds of excessive drinking and womanising.

The argument is spurious. Mr Wright's difficulties go back more than a year to when reports first began to circulate that he had abused House rules setting ceilings on outside income and improperly intervening with bank regulators on behalf of three Texas constituents who were involved with troubled savings and loan institutions (S&Ls). Two of the men have since been indicted on fraud charges.

The most clear-cut charge concerns a book deal in which Mr Wright received an unusually high 55 per cent in royalties for a cut-and-paste 117-page paperback called Reflections of a Public Man. The book was published by Mr Carlos Moore, a Fort Worth associate who, over several years, received more than $500,000 worth of printing business from Mr Wright's election campaign committee. Bulk buying of Mr Wright's book by, among others, the Teamsters' Union, created $60,000 in fees for the Speaker – who has often complained that public service has led to private penury.

A more complex issue concerns Mr Wright's efforts to prevent federal regulators from closing down struggling S&Ls in Texas three years ago. Mr Wright argued that foreclosure would damage the regional economy and held up a $15bn recapitalisation for the Federal Savings and Loan Corporation – the industry's insurance fund – to make his point.

In retrospect, this looks to have been a serious misjudgment. The delay in shutting down near-insolvent S&Ls simply pushed up the cost of this year's federal bail-out by billions of dollars.

A third area of concern is Mr Wright's long-standing relationship with Mr George Mallick, a Fort Worth associate and financial benefactor. This week it was disclosed that Mr Wright gained about $50,000 on a Florida property deal arranged by Mr Mallick and a troubled Florida savings and loan. The Speaker's office described the investment as above board and insist Mr Wright never discussed S&L matters as part of the deal.

The House Ethics Committee is set to pronounce in the next two weeks on these and other charges, much as a grand jury decides whether there is a prima facie case to answer against an accused. The panel could confine itself to charging bad judgment on behalf of the Speaker. But if the panel determines "probable cause" and votes to issue a reprimand or a call for further hearings, Mr Wright's days are numbered: "No Speaker of the House can survive censure by his own members," said one person who knows Mr Wright well.

The removal of the Speaker in mid term would be unprecedented but his fall from grace has been spurred by the frequent displays of raw power during the 100th Congress.

Mr Wright and the House Democratic leadership used their party's majority ruthlessly, curtailing debate and imposing a discipline on their own members which did not always match the lower chamber's own heterogenous instincts. Much was accomplished, particularly in welfare legislation, but at a price. Mr Wright picked up a reputation for breaking his word and crude parliamentary manoeuvering to schedule and win tight votes. The Speaker's high-profile intervention also caused ruptures in his own party and accusations that he was running as a quasi-Secretary of State.

Enter, at this point, the improbable giant-killer, Congressman Newt Gingrich of Georgia, a former history professor with a habit of quoting Machiavelli early in the morning to bleary-eyed reporters. It was Mr Gingrich's calculation that the Speaker's partisanship would leave him vulnerable to attack – and it was Mr Wright's hubris that he failed to take the attack seriously.

Mr Gingrich's success has now catapulted him into the role of front-runner for the post of Republican whip, the job which was vacated when Congressman Richard Cheney of Wyoming agreed to be nominated as Defence Secretary to replace Mr Tower, who has headed West back to Texas. A vote is scheduled for today and Mr Gingrich's call for a new aggressive Republican leadership has apparently won over many moderate Republicans who are tired of 35 years as the minority party in the House.

If Mr Gingrich wins, some predict the ascendancy of a new generation of more conservative Republicans usurping the old moderate guard led by Mr Robert H. Michell, the House minority leader. This may be only partially true – if only because House Republicans lost their brightest conservative star, Congressman Jack Kemp, to the Bush Cabinet as Housing Secretary. Moreover, the likes of Mr Gingrich thrive in a partisan environment. This may change if the Democrats ditch Mr Wright in favour of, say, Mr Tom Foley, the number two House Democratic leader.

Conversely, the Democrats may decide that whatever the merits of the charges against Mr Wright, his aggressive, lead-with-the-chin tactics may not be the best to deal with President Bush. Unlike Ronald Reagan, an inveterate basher of Congress, Mr Bush is still insisting he wants to co-operate – and the House Democrats are listening.


Jim Wright's fate is in the hands of the House ethics committee

Airbus appoints first financial director

By Paul Betts in Paris

THE AEROSPACE companies in the European Airbus programme formally announced yesterday a major restructuring of the four nation consortium to improve its efficiency and financial viability.

Separately, the European Community rejected US charges that a West German aid package for Messerschmitt-Bölkow-Blohm and its Deutsche Airbus subsidiary, one of the Airbus partners, would be breaking the rules of the General Agreement on Tariffs and Trade.

As expected, a key feature of the new management structure of the Airbus consortium is the appointment for the first time of a financial director "responsible for ensuring full open accounting throughout the Airbus system." Mr Robert Smith, the finance director of British Aerospace's Royal Ordnance subsidiary, was named to the new position.

Airbus said the changes in the management structure stemmed in part from a report on the workings of the consortium by "four wise men" last year. They are designed to simplify and streamline the relationship between the consortium and its four partners including Aerospatiale of France, MBB of West Germany, British Aerospace and Casa of Spain.

The new management structure, which has taken almost a year of difficult negotiations, will come into effect at the beginning of next month. Airbus will retain its present French corporate status of a "groupement d'interet economique," and its five-member supervisory board will continue to act as the main instrument of overall policy control.

The members of the supervisory board include: Mr Hans Friderichs, the chairman; Mr Henri Martre, the head of Aerospatiale and deputy chairman of the supervisory board; Mr Hans-Arnt Vogels, the head of MBB; Sir Raymond Lygo, BAe's chief executive; and Mr Javier Alvarez Vara, president of Casa.

The senior management of Airbus will continue to be headed by Mr Jean Pierson as managing director, whose responsibilities will be expanded to integrate the commercial needs of the consortium with the economic and industrial capabilities of the four Airbus partners.

A new position of chief operating officer has also been created to replace the previous position of executive vice president and general manager. Mr Heribert Flosdorff, a German, has been appointed to this position.

Both Mr Smith and Mr Flosdorff will join a new seven member executive committee, which will have full control over all aspects of the consortium. Other members include Mr Jacques Plenier, managing director of Aerospatiale's aircraft division, Mr Hartmut Mehdorn, managing director of MBB's transport aircraft group, Mr Sydney Gillibrand, chairman of British Aerospace (Commercial Aircraft) Ltd, and Mr Alberto Fernandez, managing director of Casa's aircraft division.

Latvia tastes Western-style campaigning

Continued from Page 1

language of the republic, and introduce immigration controls to stop the Russification process which has left Latvians in a minority in their own homeland.

Every day at the foot of the independence monument in Lenin street, built in 1937 before Soviet tanks ended the republic's brief respite of independence in 1940 and somehow never demolished, a small group gathers to lay flowers

"What right have you to meet here every day?" a Russian woman mutters angrily in passing.

The Latvians seem no longer to care. "We have nothing left to lose," says Mrs Sandra Kalniete, an art critic who became executive secretary of the Popular Front. "Our nation has come to the point where it must be decided whether we continue to exist or not."

Of all the Baltic republics, Latvia feels the most embattled and Latvians have seen the largest immigration of ethnic Russians.

Mrs Kalniete insists she is not a nationalist, not in the sense of believing her nation is better than any other. And she also knows that to survive, the movement must attract the support of a significant minority of Russian-speakers and other non-Latvians.

"They are very confused now," she says. "The happiness they thought they had brought us is not happiness. They have not got anything to put in its place."

The list of Latvian national grievances is long, beginning withe Soviet annexation at Stalin's behest in 1940. What has cemented the Popular Front is growing resentment over a string of environmental disasters, culminating last summer in a ban on all bathing in the Baltic because of chronic pollution, and over the massive immigration of Russian workers to the big new industrial factories in the republic.

That is compounded by a huge influx of Russian-speaking tourists every summer, to vast concrete holiday homes and sanatoria to which Latvians have no access.

The irony of the Latvian election campaign is that in spite of a rearguard action by the Communist party leadership, the Popular Front looks set to get the best of it. It is as if the ruling party, when confronted by genuine competition, is uncertain how to react.

Thus Mr Dobelis has plastered the town with his posters, but Mr Vagris is keeping almost out of sight. Official relations between the two have been scrupulously correct.

WORLD WEATHER

Elders S&N bid blocked

Continued from Page 1

S&N shares fell sharply yesterday, closing 89p lower at 329p. This compares with Elders' previous 400p cash offer and the 350p average acquisition cost of the shares it owns.

At yesterday's closing price, Elders faces an £11.4m loss before costs on the shares it will be forced to sell, although the Commission said the 12-month disposal deadline should be subject to flexibility because of market conditions. Its voting rights will in the meantime be limited to 9.9 per cent.

The report found that James Capel, Elders' stockbroker, sold nearly 5m S&N shares it did not own on November 10, finally closing out its "short" position through market purchases on January 5. Capel, which normally acts as an agency broker, told the commission it judged the creation of the short position as an acceptable risk.

It also addressed Elders' financing arrangements, which were a central issue in the Australian company's previous offer in 1986 for Allied-Lyons, the food and drinks group.


Wang Bingqian: no more loans

China puts brakes on private enterprise

By Peter Ellingsen in Peking

THE Chinese Government said yesterday it would introduce new taxes on the country's thriving private sector and raise taxes on items such as cars and colour televisions in an effort to encourage austerity and limit extravagance.

In speeches to China's parliament, the National People's Congress, Vice Premier Yao Yilin and Wang Bingqian, the Budget and Finance Minister, also said loans to private and collectively run enterprises would be eliminated.

Wang said that overspending had produced a budget deficit of 8bn yuan ($2.1bn) last year. Even though revenue increased by 19.5bn yuan of which 13bn yuan came from foreign loans, expenditure had gone well past expectations. China's deficit this year would be 35bn yuan, 850m yuan more than last year, he said.

In a further effort to offset inflation, which has reached 36 per cent, and provide modest wage increases, the incomes of China's poorly-paid state workers would be tied to performance.

Most of the 3.5bn yuan announced yesterday for wage rises would go to urban employees, who in spite of price rises of 20 per cent, have seen no increase in their earnings of less than 200 yuan a month. For a majority in the cities this has meant a falling standard of living.

Farmers, whose incomes after accounting for inflation, increased by an average of 6.3 per cent, have fared better. To correct the imbalances, Li Peng, Prime Minister, said the Government would introduce a system for state enterprises in which total wages were linked to performance.

To even out the disparities between state workers on fixed incomes and others, the Government would enforce a largely ignored law requiring individuals to declare their earnings for tax.

As part of its more cautious approach to reform, the Government also planned to experiment with a shareholding system in which small state industrial enterprises could be leased or sold by auction.

However, Premier Li Peng said the scheme would operate only on a "trial basis," because China had to "guard against possible chaos resulting from selling state property at a low price..."

Company managers would have considerable leeway to streamline their operations, although to avoid additions to the growing list of unemployed, they would have to provide jobs for surplus staff.

In a qualified rebuff to paramount leader Deng Xiaoping's dictum some years ago that "to get rich is glorious," Li underlined the need for stricter ideological standards and said that while the Government would "stress material benefits," it was important to "oppose putting money above all."

"We should keep the orientation of serving socialism and the people," he said.

Despite the fact the Government has recently cracked down on dissidents and imposed limits on domestic reporting, Li endorsed the principle, raised during Mao's brief flirtation with open debate, of "letting a hundred flowers bloom and a hundred schools of thought contend."

On foreign policy, the Prime Minister said that while Taiwan had made some effort to improve relations with the mainland, Taipei had stuck to its "no contact, no talks, no compromise" position and stepped up efforts to gain international recognition.

"We welcome with open arms entrepreneurs from Taiwan to make investments on the mainland," he said, "(but) firmly oppose any words or deeds that may lead to the independence of Taiwan."

THE LEX COLUMN

To brew or not to brew

The most astonishing aspect of the Monopolies Commission's report on the brewing industry is the scale of divestment involved. This kind of forced disposal is almost without precedent in the history of UK competition policy; but now pubs to the value of well over £3bn – more than a quarter of the nation's total – must apparently be sold off in three years, with virtually the whole burden falling on just five companies.

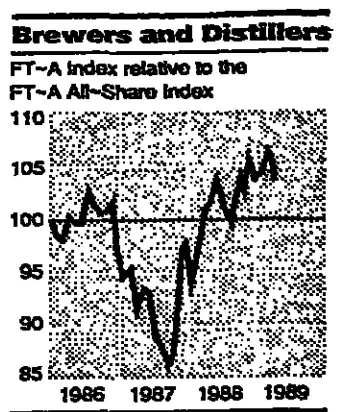
Of course, it will not be quite like that. Brewing can be regarded either as a manufacturing industry about to be slaughtered, or a retailing industry about to be set free. The whole thrust of the MMC's case is that beer costs too much – that is, that manufacturing margins are too high. All the more reason for Allied, GrandMet and Whitbread to sell their breweries, thereby leaving themselves free to keep all their pubs; and for Bass, there seems little alternative to formally splitting itself into two unrelated companies.

The tricky question is who is to brew the nation's beer. There seems little doubt that the competition authorities would keep a beady eye on any attempt by Courage, say, to buy Watney's breweries. One obvious answer would be for foreign companies like Anheuser or Carlsberg to seize the unique opportunity of access to Europe's second biggest beer market. But considering the trading conditions now facing large-scale brewing in the UK, they would do well to be cautious on the purchase price.

There remains the question of how far the MMC's recommendations will be accepted. Lord Young seemed disposed to temporise yesterday, but his doubts are almost certainly restricted to the thorny problem of EC versus UK law. It seems certain that the EC block exemption covers tied loans; but it may not have any bearing on forced disposals, which is the central issue. Given the radical uncertainty which grips the industry, it is the more regrettable that a resolution is apparently some months away.

Scottish & Newcastle

It is possible to feel a twinge of sympathy for Elders: told by the MMC in the morning to dump £200m worth of Scottish & Newcastle shares, and in the afternoon to do the same with some £500m worth of Courage



pubs. Mr Elliott now forms a trio, with Messrs Bond and Goodman, of Australians left holding embarrassing chunks of UK companies. He may think of appealing to Brussels, on the grounds that the decision is unduly parochial; failing that, he is faced with the job of selling out under tightly supervised conditions.

In some ways, S & N still looks a tempting target: a strong regional brewer with just as many pubs as the new rules permit. But it would have to be bought by an outsider, prepared to settle for 11 per cent of the UK beer market – given that further acquisitions would presumably be barred – and unable to buy any more pubs. The mayhem caused by the industry report will make pricing difficult, and prospective buyers will be aware that tempting opportunities might crop up elsewhere. Mr Elliott may have to sweat it out for a bit.

Saatchi & Saatchi

One by one, the bull market stocks of 1987 are beginning to fall apart. Nowhere is this more visible than in the case of Saatchi & Saatchi, where 18 years of uninterrupted growth have come to a surprisingly abrupt halt. The market's worries about the amount of paper issued over the years, the bewilderment over the Midland Bank affair, and concern about the quality of last year's profits, are overshadowed by yesterday's forecast of lower 1989 profits. The Saatchi formula for success no longer seems to be working, and the company deserves to take its place alongside fallen angels such as Next and Blue Arrow.

Saatchi may be the bellwether stock of the advertising industry, but its problems are very much its own. While the general slowdown in the US advertising market is probably a little more severe than first thought, Saatchi's main problem is that its costs are fixed at £400m-plus a year, and it is not getting the business. The problems of running a mega-agency, in terms of loss of clients through conflicts of interest, seem to be worse than expected; and the sharply higher finance charge suggests a substantial negative cash flow. Meanwhile, the consultancy business which was supposed to offset Saatchi's dependence on its mature advertising businesses has run into problems. Even if Saatchi's global strategy remains correct, the biggest worry is that the current rather inbred management team has little experience of mending problem businesses.

Prudential

For the best part of a year, the market has been unshakeable in its conviction that the Pru is both boring and greedy for new cash. Dull it will probably remain – though that may look more and more a virtue if economic growth follows the Chancellor's dictates. But the threat of an imminent rights issue from the Pru – which had been enough to keep the shares at or near a five-year relative low for months – all but disappeared yesterday.

Not only was there no announcement of a rights issue to coincide with yesterday's excellent results, but there were assurances from the management that most of what they want to buy is too dear by half at the moment. And given yesterday's unexpected largesse to shareholders – in the form of a decision greatly to increase the annual transfer of life profits to shareholders' funds – the need to call on shareholders for cash must have decreased along with the inclination of management to ask for it.

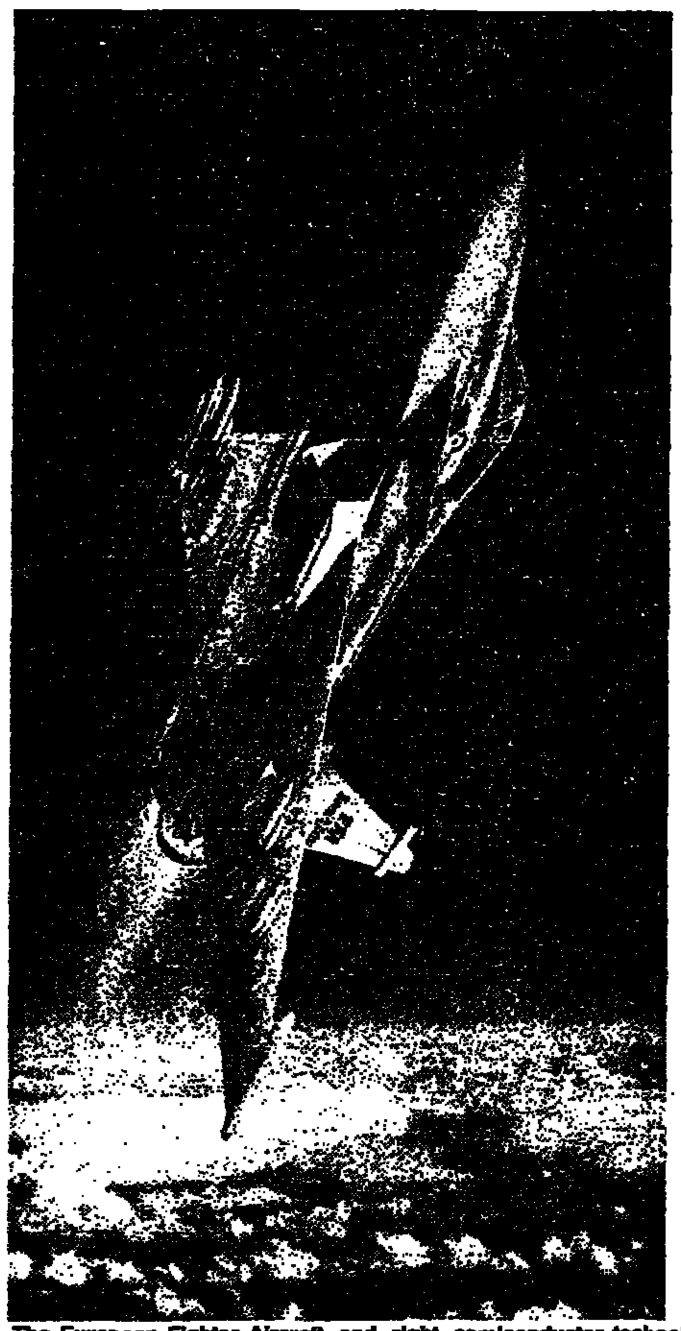
But if the market was worried enough about a rights issue to force the Pru into underperformance even against its badly depressed sector over the past year, perhaps it ought to be relieved enough now to help the giant make up some of the lost ground. Taxation and the balance sheet were the two biggest uncertainties depressing the shares; the first was dealt with in the Budget and the second yesterday, and two out of two in the space of a week is not bad going. With a prospective yield in the region of 6½ per cent, the Pru's attractions are not inconsiderable.

SECTION III

FINANCIAL TIMES

SURVEY

The European Community's plans to dismantle internal trade barriers by 1992 is giving further strong impetus for joint ventures, mergers and alliances among Europe's high technology industries, as **Terry Dodsworth**, Industrial Editor, reports here.



The European Fighter Aircraft, and, right, semiconductor technologists at Philips Research Centre in the Netherlands.

European High Technology

1992 triggers a shake-out

EUROPE'S high technology industries have been galvanised over the past two years by the issue of 1992. Plans to unify the *European* Community's internal market have triggered a rash of mergers and rationalisation aimed at meeting technological needs.

These moves are mainly affecting companies in the fields of electronics, aerospace, defence and telecommunications – industries which, in the past, have sheltered behind national procurement and sponsorship schemes. In these sectors, companies are beginning to regroup to cope with the potential disappearance of policies which have kept foreigners off their home turf.

The re-organisations have a variety of aims, from the search for more economic scale, to savings in research and development, reductions in operating costs and access to new markets.

Perhaps the most striking example of these rationalisation attempts is the Anglo-German alliance which has *brought together the General* Electric Company in the UK with Siemens of West Germany in a bid for Plessey, the British defence and telecommunications group.

If successful, this proposal would create cross-border activities in both telecommunications and defence of the kind that may eventually be commonplace in the European electronics industry.

Other recent large-scale restructuring initiatives have been directed at the more limited objectives of creating larger national companies. These include Daimler-Benz's offer for MMB, the West German aerospace group, and the talks between Thomson, the French defence electronics company and the Aerospatiale aircraft manufacturing group.

Despite the national emphasis of these transactions, they are widely seen as the initial steps towards international expansion, since they form a stronger platform for foreign takeovers or alliances.

Many more of these sorts of agreement are expected. Indeed, several aerospace and defence companies make no secret of the fact that they are discussing deals and joint ventures virtually all the time.

In the telecommunications sector, where a wave of *restructuring has already* swept through the big public exchange manufacturers, a number of international transactions between smaller producers are under discussion; and in the computer industry, executives say that it is only a matter of time before the old national champions begin doing deals between each *other.*

These 1992-inspired rationalisation moves are the second step in the reorganisation of Europe's electronics and electronics-related sectors. The first was the more modest, but highly influential move to bring European companies together to pursue common research goals.

This programme - or programmes - began in the early 1980s when several Governments became increasingly alarmed about Europe's inability to maintain a competitive position in several fast-developing high technology areas. Failure in this sector was seen as a threat to jobs, to economic growth and to the efficiency of *the industrial sector* in general as it became more dependent on electronics technology.

Collaborative research has had a number of goals, to some extent modelled on Japanese ideas of cooperation in basic scientific work which is then taken into marketable products on a competitive basis.

In Europe, the fragmentation *of the industry into a number* of national entities has been seen as a weakness in the research area since it encourages too much duplication of effort in non-competitive areas.

At the same time, joint research and development has been promoted as a means of bringing companies of different nationalities together. By insisting on cross-border involvement of this kind as a quid pro quo for financial backing, the European Commission has helped companies develop more of a pan-European perspective. This is particularly evident in the Esprit programme in information technology, which is now entering its second five-year investment phase.

The only significant area of high technology excellence in Europe which has not been influenced by this shift towards joint projects is pharmaceuticals. In this industry, companies have jealously guarded their independence – but they have not been subjected to the same pressure on profit margins as electronics-related groups.

Elsewhere, the development of Euro-projects in research and development over the last five years or so has seemed inexorable, both in strong and weak sectors. Among the strong industries, for example, are:

■ Aerospace, a sector where Europe runs a balance of payments surplus and has managed to retain its historic position in both engine manufacturing and aircraft construction. Companies in aerospace manufacturing, where activity is now centred on the Airbus consortium, have pioneered the use of new engineering materials and elec-

Continued on next page

Guide to Europe's collaborative research programmes

MAJOR programmes among nearly 70 collaborative projects include the following:

■ **The Framework Programme:** the second five-year framework programme, costing around $6.6bn, was launched in 1987. to help co-ordinate research and technological development.
■ **Esprit:** the European strategic programme for research and development in information technology and electronics; also assisting the EC in the setting up of international standards.
■ **ESA: the European Space Agency** – with the exception of Greece and Luxembourg, all EC states are members of ESA and contribute to its budget.
■ **Eureka:** an initiative by France and approved by all European states, outside the Communist bloc, to bring together companies for collaboration in new technologies. Over 200 projects have been launched.
■ **Jessi:** joint-European submicron silicon project to acquire silicon process technology for very large scale integrated circuits by the 1990s.
■ **Jet:** the Joint European Taurus is a toridal magnetic machine, capable of containing plasma gases at temperatures close to those found on the sun. This equipment, located at Culham, Oxfordshire, is designed "to prove human mastery of thermonuclear fusion for electricity generation." The project is expected to be concluded by 1993.
■ **Race:** research and development in advanced communication technology, with the main phase running from 1987-1991 for integrated broadband communication and common standards by 1995.
■ **Brite:** basic research in industrial technologies and advanced materials.
■ **Drive, Prometheus:** projects on road infrastructure and safer trafic flows; Drive was launched in 1988 to help apply information technology and advanced communication to European traffic movement.
■ **Apollo:** a project using satellite transmissions to store-and-forward high-speed digital information
■ **BAP:** biotechnology action programme.
■ **Brain:** research in adaptive intelligence in neuro-computing to better understand how the brain works in areas such *as problem-solving*.
■ **Flair:** food-linked agro-industrial research.
■ **Tedis:** a two-year project for trade electronic data interchange systems to assist the EC's telecommunications equipment manufacturers.

☐ IN THIS SURVEY:

Terry Dodsworth reports on the acceleration in collaboration

New wave of alliances

THE 1980s are proving to be the era of collaboration in the European electronics industry. Without exception, the key areas of manufacturing – from computers to semiconductors, telecommunications equipment and military electronics – are being affected by a wave of alliances and co-operative ventures. Virtually no-one has been immune: the trend has affected indigenous European companies and foreigners alike.

The recent acceleration in co-operative activities is related both to the internationalisation of trade and the rise of research and development costs. In technology-based industries, particularly those connected with electronics, competitive pressures have been brought to bear on companies which in many cases have been protected from overseas competition in the past; and the escalation in research expenditure has prompted companies to share results and avoid duplication of similar work.

Despite the generalised nature of this phenomenon, however, the nature of the joint ventures vary widely, from very close collaborative projects involving crucial aspects of a company's business, to fairly loose co-operation in peripheral businesses.

Some of the collaboration is national and some of it is cross-border. A great deal of it involves large multinationals working together on different continents.

Among the most common forms of activity are the following:

■ **Research and development agreements:**

The underlying impetus towards joint research projects lies in the pace of change that has been ushered in by the rapid development of the semiconductor industry and the application of digital techniques to telecommunications. Both of these changes have made their impact in an extraordinarily short period of time – the invention of the memory chip was only about thirty years ago, and the digitalisation of telecommunications networks has only begun in earnest in the 1980s.

This rate of advance inevitably puts pressure on companies that are being required in some cases to replace their product lines in three-year cycles, and thus recover their research and capital expenditure in this sort of period.

In telecommunications, one example of this sort of agreement is the collaboration between Alcatel (France), Italtel (Italy), and Plessey (UK). The extent of co-operation is evident in the claim by Olivetti of Italy to have collaborated in about 30 projects.

■ **Government-supported pre-competitive research:**

These kind of projects have emerged in the last few years in an attempt to bring rival companies together under State-financed programmes without undermining the competitive structure of the industry. The idea is to aim for areas where companies can benefit from the joint development of technologies which can then be taken on independently into marketable projects.

The need to cut costs has added impetus for collaboration

Among examples of these sort of programmes are various initiatives in Japan and the Alvey project in the UK, which brought together companies and universities under a Government-funded umbrella.

Even in the US, where joint development work has traditionally been anathema under American anti-trust rules, research collaboration is beginning to take root. The most outstanding example is the Sematech programme, financed jointly by industry and the Government, to develop semiconductor technology.

■ **International research:**

The idea of cross-frontier research co-operation has arisen mainly in Western Europe. It derives from the fragmented nature of the European market and the relative weakness of the region's high technology companies, which typically lag behind their international competitors in the launch of new products or the size of their international business.

Because of these problems, a number of international schemes have been developed to bring together the united resources of the region.

At the same time, governments have been hoping to help break down the nationally-based structures of European industry by supporting projects which brought companies from different countries together.

■ **Joint ventures:**

Companies are increasingly putting competitive businesses together in jointly-held subsidiaries in industries where they feel they need more scale.

These deals are sometimes aimed only at market access. One example of this is the Thorn-Ericsson agreement, under which Thorn in the UK provided the Swedish company with a British base. This allowed Ericsson to tackle the UK market with its digital telephone exchanges until it had achieved sufficient credibility to buy-out its British partner.

Other agreements bring together more equal partners who want to combine their technology and markets, or to achieve more financial muscle to attack new opportunities. The proposed new deal between the General Electric Company of the UK and Siemens of West Germany in the telecommunications area falls into this category, providing both larger markets and an increased technology base to both partners.

Similarly, the 50-50 joint venture between GEC and General Electric of the US in domestic appliances will bring the two companies together for a joint assault on the Continental European market.

■ **Equity participations:**

While equity-based links have been particularly popular in the US - IBM, for example, has often used these sort of transactions, as in its purchase of shares in the Intel semiconductor group - they are beginning to appear more regularly in Europe.

One example is Northern Telecom of Canada's 28 per cent shareholding in STC, the UK electronics and telecommunications group; another is in the field of mobile telecommunications, where several European companies have taken cross shareholdings to give them access to different countries.

■ **Technology alliances:**

Companies are increasingly seeking collaboration in which a partner – usually from overseas – provides either a specific technological skill or a high technology product.

These have been particularly prevalent in the field of computers, where Europeans have drawn extensively on Japanese and US groups. Fujitsu of Japan, for example, provides the basic semiconductor technology for the UK's ICL computer group under a long-term agreement; Fujitsu also supplies mainframe computers to Siemens of West Germany, while Hitachi, another Japanese group, provides mainframes to Comparex, the other leading German mainframe group.

In France, the Bull computer group has a mainframe supply agreement with NEC of Japan; and several European companies have agreements with US minicomputer manufacturers.

The rising popularity of collaboration has not occurred without a great deal of scepticism. Opponents point to the disappointing history of co-operative ventures in the past, arguing that all forms of economic enterprise benefit from clear direction and strong control. Joint activities, they say, suffer from a mixture of objectives and conflicting corporate cultures; and there are questions over how long Governments can concur in behaviour which might easily become anti-competitive.

On the other hand, collaboration has grown out of a real need in some technology areas to share out costs that are beyond the scope of many companies under the present structure of the industry. In Europe, this motivation has been given extra impetus by the division of the industry among national companies serving the old nation states.

On both counts, co-operation may prove to be no more than a stepping stone to a new structure for the industry into larger, more specialised pan-European groups. Collaborative research will have enabled companies to get to know each other better; and the joint ventures will give way to takeovers as technology leaders emerge in different sectors.

This, at least, is how many government officials would like to see the European industry develop: and if it does not, governments may be left with some difficult issues of anti-competitive behaviour on their hands.

Fierce global competition in the pharmaceuticals sector

Rising research costs add strain

THE PHARMACEUTICAL business in Western Europe is now undergoing a series of strains which could affect its position as one of the continent's relatively few unquestionably successful high-tech industries.

The sector, with annual production of about £25bn, is dominated by a dozen or so big companies with operations stretching around the world. These include Glaxo and Imperial Chemical Industries of Britain, Hoechst and Bayer of West Germany, Rhône-Poulenc of France, Switzerland's Sandoz, Ciba-Geigy and Hoffmann-La Roche and Astra and Pharmacia of Sweden.

As executives at these companies regard the future, two big issues – the cost of research and development and the shape of the pan-European strategies that are put in place to control drug sales after the 1992 single market – usually come under crucial discussion. Both are likely to influence the development of the sector over the next decade.

The issue of R&D costs is not a new one for the sector, but it has become increasingly important in recent years as a result of the extra cash that companies have been pouring into this area. Nowadays the big drugs companies normally spend 10-15 per cent of their annual sales on R&D, a much higher fraction than even five years ago.

The need for this has been driven by increased global competition in the pharmaceuticals field and also by the extra trials and therapeutic tests which are required for new drugs by government health authorities before the medicines can go on general sale.

There is a feeling in the drugs sector that not all companies will be able to keep on increasing their spending in this manner. Mr David Friend, chief executive of the drugs division at ICI, says the economic consequences of ramping up spending in this manner in a market place that is becoming increasingly tight are beginning to hit home for some parts of the sector.

"Some companies are beginning to feel the draught," he says.

Mr Peter Woods, a drug industry analyst at Warburg Securities, a London stockbroker, says that at least partly as a result of the extra costs of research he expects to see some thinning down of the top ranks in the pharmaceuticals sector – either by a process of amalgamation or by companies dropping out of the industry – over the next five years.

Extra trials and therapeutic tests are now required for all new drugs

Proof of the way in which companies are flinging money at R&D has come with a plan by BASF, the big German chemicals company, to build a new $40m biotechnology research laboratory in Massachusetts to spearhead its drive into the drugs field - in which BASF is by far from a major player.

A BASF official says:"It is a long-term venture. We don't know what will result. In 10-15 years, we may make a big shot (a research breakthrough) and then we will discuss exactly how to get our ideas on the market. We have no specific plans right now on how we are going to do this."

This somewhat hit and miss approach has been criticised by some analysts such as Mr Stuart Wamsley, a chemicals analyst at the London office of Morgan Stanley, the US investment bank. Mr Wamsley sees this as evidence of the kind of profligate approach to R&D spending often pointed out by other observers in the drugs field.

Mr Wamsley says: "It is hard to envisage that BASF has enough clout in pharmaceuticals to be able to absorb any ideas which are generated from the big push into biotechnology that it is now making. The idea of creating the new lab is like dropping a big pebble in a pond and waiting to see what ripples come up. It worries me that they are spending all that money without appearing to have a clear idea about what they are aiming at."

Another view, however, comes from Mr Bob Muller, a chemicals industry consultant at SRI International, a California-based consultancy. He says that BASF is right to spend its money on this kind of long-term venture.

He says too much US management thinking is oriented to the short-term – "spending $40m (the cost of the biotech lab) is a first class strategy. I am envious of their (BASF's)attitude."

Irrespective of whether throwing this kind of cash at R&D is a good or bad strategy – and BASF can rightly argue that the answers will only become known at the end of the 1990s – the other big issue for the drugs world is the shape of the pan European licensing and pricing system for medicines after 1992.

Applying the logic of 1992 to pharmaceuticals, the market for these products should be regulated by a common set of standards which would replace the often widely differing rules which apply now in individual EC nations.

In practice, that means integrating at least to some degree the procedures which apply to pricing and licensing of medications in the different countries and which at present differ widely.

Officials at the European Commission in Brussels, in attempting to tackle these areas, are torn by a number of sometimes conflicting requirements. On one hand they want to minimise the cost of paying for drug purchases across the EC countries.

On the other hand, they want to safeguard the health of Europe's big and export-oriented drugs industry. Only by keeping prices relatively high, the sector argues, can the industry afford to finance the high levels of research and development needed to turn out new products.

A third desire by governments is to police the introduction of new medical products reasonably severely in order to prevent problem drugs entering the market which have an unacceptable incidence of side effects. This is where the focus turns to the idea of operating an efficient pan-EC licensing system which stops rogue products by a thorough set of trials procedures, yet at the same time does not prove so cumbersome and bureaucratic that industry suffers too many obstacles in making available safe and effective new products.

Officials at the European Commission still have some way to go in working out a new system which will work across the whole of the European Community after 1992 and satisfy all these issues. The system which is eventually worked out will play a big part in influencing the progress of the industry until the year 2000.

Peter Marsh

Surge in demand for chemicals

Earnings at high levels

THE past year has been extremely good for many of Western Europe's big chemicals companies, with revenues and earnings at high levels thanks to the current surging demand for many types of synthetic materials.

The sector is one of Europe's biggest manufacturing industries, with annual sales hovering around £160bn. It contains many of the world's biggest chemicals groups, including the four largest companies ranked by sales – BASF, Bayer and Hoechst of West Germany and Imperial Chemical Industries of Britain.

Yet talk to a typical executive in the industry and you are likely to hear of quite a few problems.

One is the fear that the buoyant state of markets for chemicals products is unlikely to last for more than the next year or two. Many in the industry reckon that a recession of some sort will hit home over this period. That could lead to reduction in sales and lower prices in those of the business selling commodity products such as high-volume plastics and general industrial chemicals which are affected by broad levels of activity in the economy generally.

Another worry concerns the chemical industry's image problem. Many people associate the sector with pollution. They believe – with very little evidence, say many in the sector – that it has not done enough to clean up its act environmentally and to reduce the obtrusive effects of its plants.

Ten years ago, this might not have mattered very much. But an industry that appears to many not to be in tune with today's popular sentiments regarding the environment may indeed have something to worry about.

Technology, however, has something to offer the industry to ease the headaches in both these areas. By moving more of its operations towards the higher-value, high-technology sectors of chemicals, the industry may be able to move away from the commodity areas of the business which are most prone to the sudden peaks and troughs in demand which over the past decade has made planning in the industry notoriously difficult.

In practice, this means continuing the effort – which for many of Europe's big chemicals groups has been going on since the turn of the 1980s – into building up strength in fields such as agrochemicals, pharmaceuticals, engineering plastics and speciality reagents and materials for industrial applications.

Although research and marketing costs may well be higher than for the conventional low-value, high volume products of the chemicals world, all these areas involve selling products at relatively high prices which involve good margins.

Technology, too, may have a part to play in making the industry appear more environmentally friendly. A range of ideas emanating from the chemicals sector itself could help the sector both to clean up its own operations and also to play a bigger part in cutting pollution in other areas of the economy.

Such ideas include computerised plant monitoring systems to provide better control of discharge of wastes; novel enzymes for water treatment; scrubbing devices to get rid of unpleasant gases from power station plumes;and novel kinds of bacteria to clean up contaminated landfill sites.

Europe's annual chemical sales are worth around £160bn

Mr Hugo Lever, director of CEFIC, the Brussels-based trade association for the European chemical industry, says that by developing new ideas related to pollution control the sector may have a positive role to play in environmental matters generally.

Overall, he says, the industry has come a long way since the 1960s in terms of its approach to pollution – "there is a lot of money being spent on environmental matters generally in the industry. We have done a lot to improve our image but have not received a lot of recognition for this," he says.

As for specific sectors, many of Europe's chemicals groups are putting more resources into the research aspects needed to add new properties to basic products such as fibres and plastics in such a way that they can be used in more technical, higher value applications. In this fashion what was yesterday's commodity chemicals can be turned into into tomorrow's speciality materials.

That applies especially to plastics, a £20bn turnover industry in Europe which is increasingly accenting the higher-value engineering plastics component of the sector which is concerned with developing and making high strength materials for industries such as cars, consumer goods and computing equipment.

According to Mr Peter Claus, director of the Brussels-based Association of Plastics Manufacturers in Europe, much of the work in this area lies in developing new blends of materials based on substances which already exist.

The new mixtures, says Mr Claus, may have properties which offer something special to the customer, in terms of factors like toughness or resistance to heat. Leading the thrust in this direction of plastics are several of Europe's large chemicals companies including Bayer and Hoechst of Germany, Akzo and DSM of Holland and Switzerland's Ciba-Geigy. Also trying to strengthen their positions in high-value plastics are the European subsidiaries of three big US groups, General Electric, Du Pont and Dow Chemical.

Peter Marsh

1992 shake-out

Continued from previous page

tronically-controlled flying methods.

■ Defence: the principle of joint development of military aircraft is now well-established because of the exceptionally high cost of research in this field. The same approach is now being extended to other areas of defence electronics expenditure, such as radar and communications, faced with similar problems of escalating research and development requirements.

■ In telecommunications, one of the most fiercely nationalistic of all industrial sectors, European companies are forging links in a number of areas.

Under the direction of the European Commission they are collaborating in RACE, an ECU1bn ($1.115bn) programme to facilitate the spread of high capacity "broadband" communications. And in the mobile communications field the industry has from its inception been developing on a pan-European basis; the companies involved are creating common standards, forming international research and market alliances, and more recently have begun taking equity stakes in each other.

In weaker high technology sectors, companies are entering collaborative arrangements as a way of fighting back against overseas competitors:

■ In the computer industry, for example, where indigenous European groups account for only about 47 per cent of European sales, there has been a widespread shift to open standards under the influence of some of the region's largest groups. Every sizeable manufacturer is collaborating in research projects under the Esprit programme; and talks are currently going on in Brussels about more far-reaching co-operation.

■ Semiconductor manufacturing has seen an even more ambitious attempt to bring together a variety of Government and corporate resources to drag the European industry up to the level of the US and Japan.

The latest joint project - Joint European Submicron Silicon (JESSI) - is aimed at co-ordinating the development of the next generation of products by bringing together all the main European chip producers, along with independent Government funding and a contribution from Esprit.

■ In consumer electronics, where the Europeans have a patchy record despite their strength in television production - Philips of the Netherlands and Thomson of France are the world's two largest producers - the European Commission's special research effort into high-definition television (HDTV) is intended to give the industry a platform for the next generation of equipment.

These moves towards a pan-European structure in the high technology sector are not going on without a great deal of criticism. Many opponents of government-backed research schemes see these projects as the extension of traditional policies of national protection to a regional scale. They argue that the best stimulus for European companies would be to remove trading barriers and protective procurement procedures as quickly as possible.

Others contend that joint projects such as JESSI in semiconductors merely throw good money after bad in a sector where components are widely available on the world market. These sorts of programme, they argue, are hopelessly difficult to manage, and the money would be better spent on disseminating knowledge of new technologies throughout small and medium-sized companies.

Against this, supporters insist that collaboration, oiled by European funds, is of value in itself and a helpful preliminary to the structural shake-out that will have to come in the high technology industries. Europe is doing no more in joint research than the Japanese have been doing for years, with outstanding success, they contend.

"The important point is to make sure that the research is pre-competitive and nothing more," says Mr Amedee Turner, spokesman for the European Parliament's committee on Energy, Research and Technology.

"Industry always wants to obtain funds for market-oriented projects, but we need to develop in the style of the Japanese, where companies work together in pre-competitive areas, but are fiercely competitive when it comes to developing products for the market."

Britain pioneers guidelines for animal genetic research, says **David Fishlock**, Science Editor

New applications in biotechnology

THE EUROPEAN Commission has recently published proposals for harmonising national patent laws by establishing a legal framework for the patenting of genetically-manipulated animals and plants.

Now the EC is drafting guidelines for the regulation of forthcoming experiments in the application of the new biotechnologies to agriculture and food.

Such application have been slower to take off than other applications of biotechnology in *pharmaceuticals* and health-care, not least because the organisms involved are much more complex than microbes, much less well understood genetically.

Nevertheless, experiments in applying biotechnology to animal husbandry are within sight in Europe. Their broad aim is to improve the health and welfare of farm animals, rather than the creation of *novel animals — chimera or* monsters, as some critics would have it — says Professor John Beringer, from the medical school of Bristol University. Prof. Beringer is chairman of the planned release sub-committee of the Health and Safety Executive's Advisory Committee on Genetic Manipulation.

A healthier beast — the prevention and reduction of *disease in animal husbandry* — is the area of greatest opportunity in sight for the so-called "transgenic animal," he believes. These are beasts into which foreign genes have been introduced, just as they have been introduced into micro-organisms for the past 15 years.

Other potential uses foreseen for transgenic animals, however, include the production of veterinary and pharmaceutical products, using the idiosyncrasies of the *beast itself as a convenient* bio-reactor.

At the Agricultural and Food Research Council's institute of animal physiology and genetics institute in Scotland, transgenic sheep have been used to make a human protein called alpha-1-antitrypsin, a blood-clotting factor, also known as Factor IX.

Factor IX extracted from sheep's milk is expected to be free from any *risk of hepatitis* or Aids (HIV) infections which may contaminate donated human blood.

Another possible use for the transgenic animal could be as a source of healthier meat for human consumption; meat richer in protein and relatively free from fat, for example.

Professor Mark Williamson of the department of biology at York University has been chairman of a working party convened by Prof. Beringer's committee, to draw up guidelines for the regulation of experiments involving transgenic animals. Whereas biotechnology research practice until now has been *able to keep genetically* manipulated micro-organisms under tight containment, future agricultural activities must inevitably expect to involve at least some release

The broad aim is to improve the welfare of farm animals

into the environment at large, if the practice is not to be hobbled to an unacceptable degree.

Prof. Williamson is also helping the European Community to draw up its guidelines for all 12 nations. At the moment, Britain, he *believes*, "has the best system in Europe," with guidelines already approved by its Health *and Safety Commission*, and expected to be backed by new legislation later in the year.

These guidelines define a transgenic animal as one which carries a foreign gene or genes from another species, or an extra copy of a gene from the same species.

Such genes can be implanted in the fertilised egg cell by recombinant DNA technology, and the genetically *manipulated egg then* placed in the womb of a female animal for development, to spawn the transgenic animal.

The experimental aim, for the foreseeable future at least, is to change a single gene out of several hundred thousand. To put this into better perspective, many genes of an animal, such as a cow, have already been manipulated by nature in its gradual *transformation from a wild* animal to the contemporary farm animal.

Research centres throughout Europe — a dozen in Britain alone — are planning experiments involving the breeding of transgenic animals of all sizes, from mice to cows. Small animals present no great problems because they can be conveniently contained by similar practices to earlier experiments in genetic manipulation.

Problems begin to arise with farm animals — cows, sheep, pigs and so on — which may need to range more freely. Fish may be very difficult to contain at all.

Agricultural scientists engaged in such experiments in Europe have asked for such *guidelines. They* have been perturbed by some activities elsewhere, including the case of the arthritic pig, bred accidentally in the US, in an experiment to enhance the growth of pigs. The implanted growth gene ended up in the wrong place, producing a beast that could scarcely stand.

Scientists have also been bothered by accusations from opponents of genetic manipulation — initially in the US, but now increasingly in Europe, especially West *Germany — that they* deliberately wish to breed monsters in the interest of *making farmers* richer.

Such critics conjecture monstrosities in which the less *economically valuable parts* of an animal are simply shrunk or eliminated genetically. Wingless poultry would be an obvious example. They also agonise over the consequences for people of eating animals which have been genetically altered.

So the new guidelines which Britain is pioneering in Europe relate to conditions under which animals might be bred and released to a wider environment. So far, no-one in the UK has gone beyond planting a transgenic potato, in an open field, but under closely specified conditions.

Conditions at which Europe is expected to draw the line - as has Britain - certainly include *animals disabled as* a result of genetic manipulation, as was the *arthritic pig. Any attempt to* breed wingless chickens would also be banned.

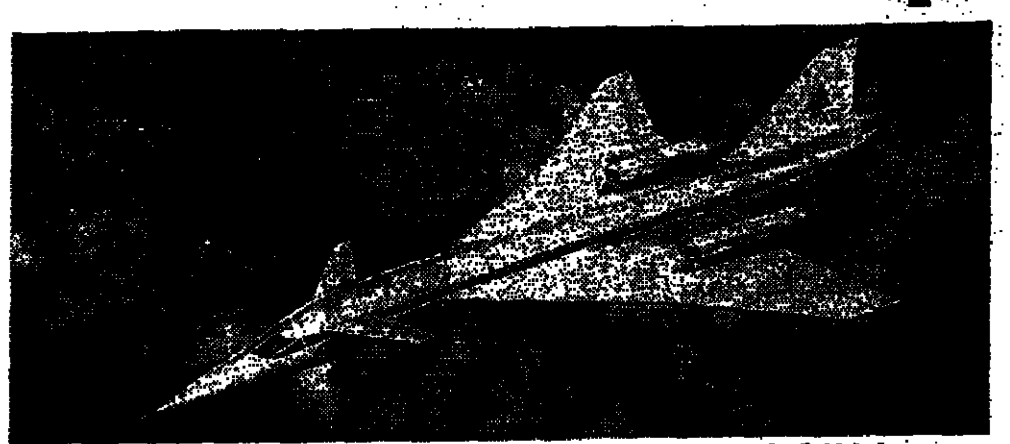
Under the British guidelines a transgenic animal will have the same 'rights' as any other animal. For its first two generations, a transgenic animal will be regarded as an experimental animal.

Michael Donne highlights significant advances in aircraft technology

More 'firsts' in aerospace

AEROSPACE has always been a spearhead industry for high technology, as the ever-increasing demands for higher performances in military and civil aircraft, engines and avionics, and in spacecraft, in turn drive the scientists and engineers to find new materials and new manufacturing techniques to meet those demands at acceptable cost levels.

In military aviation, the overall cost of design, research, development and production of a new fighter aircraft, such as the Anglo-West German-Italian-Spanish European Fighter Aircraft (EFA), can cost many billions of dollars.


Supersonic business jet: an artist's impression of a possible development by British Aerospace. It would carry 12 passengers at speeds of up to 1,200 mph

Keeping the costs down, whilst *ensuring* that the overall performance of the aircraft remains superior to that of the enemy fighters, is paramount.

In the EFA, (illustrated with an artist's impression on page one of this survey), extensive use is being made of carbon-fibre composites and new light-weight metal alloys, including aluminium-lithium, while its highly integrated structures use new manufacturing tech*niques such as superplastic* forming and diffusion bonding to save weight and costs.

In its associated engine, the EJ-200, in which Rolls-Royce, Fiat Aviazione of Italy, Motoren und Turbinen Union of West Germany and Sener of Spain are linked, new developments such as single-crystal *turbine blades* and powder-metallurgy discs will be extensively used, along with a new "*integrated health monitoring* system" to ensure that malfunctions in the engine can be swiftly detected and corrected.

In commercial aviation, the European Airbus Industrie consortium, comprising British Aerospace, Aerospatiale of France, Messerschmitt-Bolkow-Blohm and Casa of Spain, has been a consistent leader in the development of advanced technology since its 1974, when *the A-300 — the first twin-aisle* twin-engined airliner — entered service.

Among its significant 'firsts' in airliner technology have been Category III automatic landing, forward-facing two-man cockpits on wide-body aircraft, the use of composite materials in fairings and control-surfaces and 'fly-by-wire' flap and slat controls.

The latter has been used in *fighter aircraft for some time*, but the A-320 twin-engined aircraft is the first airliner to introduce it on the flight-deck, as a means of preventing stalling, or manoeuvring too violently, thereby saving fuel and giving all aboard a smoother ride.

Beyond fly-by-wire, Airbus is now also studying the next technological step involving transmitting information from the flight-deck to the control surfaces of an aircraft through 'fly-by-light,' or the use of a full fibre-optic control system.

Here, the electrical signal-carrying wiring is replaced by *optical fibres along which the* information is passed, to give improvements in safety, greatly reduced maintenance requirements and systems weight.

Airbus Industrie has also pioneered protection against windshear (violent downdrafts of air), which was introduced on its first aircraft, the A-300, and has been progressively improved ever since, and more *recently, Airbus has also led* the way with, among other developments, the introduction of a lighter tail-fin in carbon-fibre, a tank in the horizontal tail-plane that saves fuel, and computerised controls.

In the A-320, the safety improvements include not only fly-by-wire controls but also *the 'side-stick controllers'* which replace the conventional control columns on the flight-deck. Airbus Industrie also was the first to exploit the full potential of TV-type displays on the flight-deck, reducing the number of instruments and creating a more efficient work-place.

Among the latest 'firsts' for Airbus Industrie is the 'common wing' design by British Aerospace that is being used on both the new twin-engined A-330 and four-engined A-340 airliners, now under development.

Hitherto, every new airliner design has been developed with a new wing, but the Airbus/BAe system ensures that two different airliner models can be built for much lower cost by the adoption of the common wing design.

In the overall airliner manufacturing process, Airbus Industrie and its individual industrial partners, are all exploiting new technologies and new materials to speed manufacturing times and significantly reduce costs.

Airbus, for example, believes that by expanding the use of powder-metallurgy the manufacturing costs of metal structures could be reduced by as much as 75 per cent, while automatic riveting could cut them by 50 per cent or more.

By using a system called ARAS (Automated Riveting Assembly System), it is possible for the first time automatically to produce longitudinal joint connections on closed fuselage structures, with drilling, counter-sinking, sealant application, rivet feeding and rivet setting all being done automatically with numerically-controlled machine tools.

Looking into the future, new ventures, such as the Transatmospheric Vehicle which can take-off and land like an aircraft but soar into near-Earth *orbit — of which the British* Hotol is an example — are now being studied, whilst British Aerospace and Aerospatiale are both looking at concepts for second-generation supersonic airliners to replace the Concorde in the early years of the next century.

In power-plant technology, advanced types of engines are being explored to provide the power for such Transatmospheric Vehicles and new supersonic transports, and those concepts in turn are spawning *much research into new materials*.

All of these ventures are certain to ensure that aerospace in Western Europe remains where it is today — at the forefront of advanced technology.

Search for new partners sought in the defence industry

Further surprises forecast

EUROPE'S DEFENCE industry has suddenly begun to look like a personal classified advertisement column. The search for new partners, many believe, will yet produce more surprises after the past few months' spectacular series of engagements and proposals.

Three crucial re-organisation moves now awaiting consummation are GEC and Siemens' joint bid for Plessey, the UK's second specialist supplier of military electronics; Daimler-Benz's state-subsidised move towards control of Messerschmitt-Boelkow-Blohm, the West German aerospace group, producing a powerful arms conglomerate ranging from armour to aero-engines and *helicopters to aero-engines*; and, on a less far-reaching scale, the merger of the flight electronics businesses of the French state-owned groups Thomson-CSF and Aerospatiale.

A wide range of contacts are being conducted between leading UK, French, German and Italian defence contractors, on specific or more long-term arrangements.

Why? Mainly, quite simply, because the market is getting tighter. Curbs on once-expansive US *spending have set* the tone and the high-technology areas of electronics and new materials stand only partly to buck the austerity trend.

True, the search for efficiency favours some electronic sectors. Activities classed under what is known as CI (command, control, communications and intelligence - more of a military concept than an industrial branch as such) and electronic warfare (the business of confounding enemy signals) can continue to look forward *to growth*.

But in the giant US market there will be that much more competition for these opportunities, and US companies are looking for ways to tap European markets to compensate for setbacks in their own.

The number of "big players" in the Western defence industry is expected to narrow down. This does not mean that small companies cannot find room *as specialised suppliers*, but as sub-contractors, a role to which bigger companies are *loath to confine* themselves.

European companies have made some inroads in the US, such as Plessey with its acquisition of anti-submarine warfare specialist Sippican, and further European takeovers of small US firms are expected. But in defence, *foreign-owned* companies have a hard task in the protective US military environment, and European *suppliers such as Thomson-CSF* — which sold its Rita battlefield communications system to the US Army three years ago — always have to share the work with US contractors.

The movement is taking place more within Europe. Under the Single European Act, the Community set out to bring defence matters more within its scope, and there has been talk of building a unified arms market, and even (by the French, to the horror of the UK) of creating a "European preference."

Partly in order to pre-empt moves that might create divisions in Nato, and partly to take advantage of the impetus of the "1992" process, European Nato allies have taken steps to open their military markets to each other. Eventually this could lead to greater specialisation and less wasteful duplication.

Up to now there has not been a European defence industry so much as a collection of ill-assorted national industries. Britain and France, the two countries with by the strongest technological and industrial bases in this sector, provide captive markets for their own suppliers, buying only 10 or 15 per cent from outside, and even less from each other.

The opening of trade is at an early and tentative stage. *When it comes to the crunch*, what country is ready to let a major defence company go under?

On the other hand, there are ample opportunities for companies to establish Europe-wide outlets — and thereby reach more viable production levels — for components, sub-systems and other items such as munitions.

These moves have been *accompanies by a French-led* initiative to study the pooling of research resources, following the model of the Eureka and Esprit programmes.

Spiralling research and development costs are the key to current re-thinking in the industry. European contractors have particular strengths in areas such as advanced sensors — not just radar but also infra-red and optical systems — but theirability to keep ahead or keep up is affected by low volume.

Britain's Ministry of Defence, in particular, wants to limit is own input into research, after costly white elephants such as the Nimrod

Continued on facing page

Peter Marsh looks at new space projects

High ambitions

WESTERN EUROPE is at the cross roads as regards its long-term development of space technologies.

It has agreed to finance a series of highly ambitious projects in manned space schemes to which increasingly large amounts of taxpayers' cash will be devoted over the next decade.

At the same time, it is poised for a steady expansion in the less glamorous – and also less controversial – area of communications and Earth-mapping satellites in which there is a substantial body of involvement by the private sector as opposed to government agencies.

Space developments in Europe, as in most other parts of the world, continue, however, to be largely the preserve of governments.

Most of the cash for these programmes in Europe is provided by the 13-nation European Space Agency, whose *budget of about $1.7bn a year* is due to increase to roughly $3bn by the mid-1990s.

Other state organisations, such as individual space-technology departments of the gov*ernments of countries such as* France and West Germany, account for total annual spending of a further $1bn or so.

The cash spent by these bodies is important to a number of big aerospace companies within Europe, many of which are highly dependent on government programmes. Such companies include British Aerospace, Messerschmitt-Bölkow-Blohm of West Germany and Aerospatiale of France.

ESA, which raises its money by subscription from its member governments in rough relation to their size, has three big programmes over the next decade which increasingly will dominate its activities.

These projects involve work on the Columbus space-laboratory module which will plug in to a large manned space station planned by the US for the late 1990s; two Hermes manned space carriers which will look like smaller versions of the US space shuttles and connect up Columbus with ground bases; and the Ariane-5 launch vehicle, a heavy duty system that has grown out of the development of Europe's Ariane rocket series over the past decade and which will act as the main booster stage for Hermes. These three projects are *due to cost roughly $13bn by the end of the 1990s.*

It has been unmanned space programmes – in areas such as communications satellites, which are now a big area of commerce – which so far have provided most of the business opportunities in space. It is no surprise, therefore, to find ESA's stance towards developing manned space projects come under attack from some quarters.

The criticism has come notably from the UK Government, an important member of ESA and which is the agency's fourth biggest paymaster after France, West Germany and Italy.

The UK has taken the view that many of ESA's programmes in the manned space area are not geared sufficienfly to commercial exploitation and are more tied up with arguments of political prestige than with realities of producing useful technologies directed to meet the problems of the late 1990s.

As a result of this approach, Britain has decided not to support the Ariane-5 and Hermes programmes and is becoming involved only to a modest degree in Columbus.

Here its main involvement is in the construction of a Columbus-related satellite which will be loosely attached to the space laboratory but spend all its time in a different orbit taking pictures of the Earth of use in remote sensing. That is a commercially promising area of space technology in which satellite photographs are used in a variety of applications from monitoring crop growth to checking on the spread of pollution.

Arianne rocket: key to business opportunities in space.

Professor Reimar Lüst, director general of ESA, is, however, a vigorous proponent of Europe's aims of directing more of its energies into the manned space arena, a field hitherto dominated by the US and the USSR, the world's two main space powers.

He also thinks ESA should not necessarily be dominated by commercial issues but that it has a role to develop new technologies and scientific thinking in areas where the business applications still have to be thought up.

Prof Lüst, together with many other people connected with space activities, has a vision of the vast areas above the atmosphere being one day suitable for a large number of developments, from making goods in new, zero-gravity factories to space tourism.

In a recent interview, he drew the parallel with what happens on Earth – "in inhospitable places, such as in the mines or in Antarctica, you cannot do without people for many vital jobs. In space, the same will be true. You should try to achieve as much as you can, using automated systems – but it is not possible to say that, in the *future, man* will not be required in space."

Prof Lüst also went to some lengths to point out the stance by ESA to its relations with the US, with which it is collaborating over the space station but competing heavily in other areas, such as in Ariane developments.

Ariane, which is run by an ESA-linked commercial consortium called Arianespace, is the world's main commercial space launcher and is a rival to a number of other rockets being operated by big US companies such as McDonnell Douglas and General Dynamics.

Prof Lüst says that "this idea of collaboration on one hand and competition on another is not at all unusual."

Alan Cane on computer industry alliances

An era of mergers

THE CONTRAST with the situation a decade ago could not be more marked.

At that time, major European countries were committed to supporting their leading computer manufacturers as "national champions." Now all that machismo has evaporated and the entire European industry is quietly engaged in a seemingly endless round of discussions as companies seek out the best opportunities for mergers, joint ventures and collaboration in research and development.

While some important deals have already been struck, most activity so far has been confined to exploratory talks; the impression remains that sometime in the next few years, the face of the European industry will change rapidly and decisively. Received wisdom is that there will be a powerful coalescence into a small number of large, well-capitalised groups *able to compete both across* Europe and globally. Among the causal factors are:

■ The realisation that no single company can hope to excel across the whole spectrum of computing and telecommunications. An example of this is the decision of International Business Machines, the world's largest computer company, to relinquish the manufacturing activities of Rolm, its telecommunications subsidiary to Siemens of West Germany.

■ The need to find new economies of scale as margins are progressively eroded and competition intensifies. Comparex, the mainframe computer company established jointly by Siemens and BASF, is an excellent example. It has recently signed a letter of intent to purchase the European operations of National Advanced Systems.

Both companies market the same mainframe processors, built by Hitachi of Japan.

Mr Rolf Brillinger, Comparex chairman said recently: "Growth rates since the boom period from 1965 to 1985 have obviously settled at a lower level, but are still considerable in comparison to other industries. So it is not surprising that competition has intensified which has brought increasing pressure to bear on costs. The opportunity to rationalise our costs is one of the main reasons for our proposed acquisition".

■ The steady move towards common computing standards with Unix as the common operating system of choice and Open Systems Interconnection (OSI) as the choice for networking. It was the European electronics companies led by Siemens, International Computers of the UK and Groupe Bull of France which initiated pressure for world-wide standards.

Now they are seeing their efforts rewarded. But it has been a long battle. Only in the past year has it really become certain that Unix could become a genuine force in the industry, and even so there is an intense battle between two groups, one led by IBM the other AT&T to set the Unix standard.

■ 1992 and the advent of the single European market is beginning to concentrate minds wonderfully. Surveys have tended to show that many information technology (IT) companies, especially in the UK, have a jaundiced view of 1992.

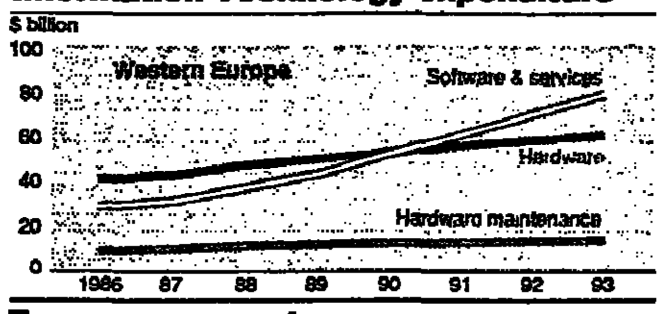
Romtec, a UK-based marketing consultancy which carried out a study of the opportunities for IT vendors in the single market warns: "It seems likely that the upheaval in Europe will result as much from global issues, such as the major USA, Japanese and European power blocs as from political decisions to remove trade barriers. For IT, this means that it is more about changed attitudes and changing technology than changes in legislation".

"For this reason, it is dangerous to look at 1992 purely from the point of view of the specific changes in legislation. Companies that have done this have come to the conclusion that 1992 is not very important to them. This is a dangerous assumption".

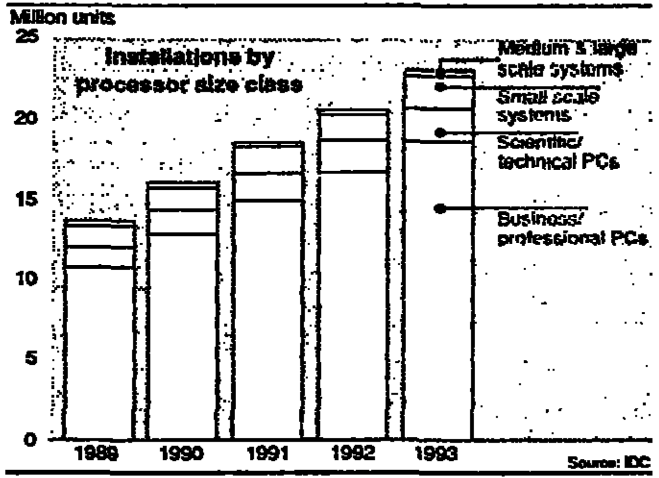
■ Finally, the cost of research and development in electronics has now become so prohibitive that companies are eagerly seeking to share the burden at least in the area of "pre-competitive" research where companies can combine their expertise to probe fundamental questions of physics.

Siemens, ICL and Groupe Bull, for example, have established a joint research initiative. The European Community programmes Esprit and Race, detailed elsewhere in this survey, are further examples.

Information Technology expenditure



European computers



With all these difficulties to surmount, does Europe really need an indigenous computer industry?

After all, as one computer manufacturer pointed out, the Europeans had missed their chance. Not one of them was playing an important role in the world-wide industry. They were all on the defensive.

The answer, however, is tied up with the fact that increasingly, computer hardware is becoming standardised, a commodity item, where margins are low and where there is intense price competition. In such circumstances, it may prove impossible to defeat the economics of manufacturing in the Pacific Rim countries.

Matching hardware and software to a customer's requirements, however, is complex especially where the customer is looking for a competitive advantage from new information systems. Solutions are rarely found off-the-shelf and are usually profoundly influenced by local conditions and culture. The Japanese seem to have taken the decision that, for the moment, they are content to stay clear of these complexities.

Hitachi, for example which now has three channels into the West via NAS in the US, Comparex in Europe and Olivetti specifically in Italy seems happy simply to supply machines leaving the tricky job of systems integration to its distributors.

The same seems to be true of NEC which supplies mainframes to Groupe Bull both in Europe and the US and Fujitsu which supplies entire computers to Siemens and specially designed processor chips to ICL. But if all the European computer companies depend on the Japanese for mainframe technology, the same is not true of the critically important mid-range and microcomputer areas.

Defence industry

Continued from page 4

early warning radar project, but industry is reluctant to fill the gap.

The case of a Europe-wide approach at both government and corporate level is gaining currency. Up to now, the response to the problem posed by high investment costs on the one hand and the relative smallness of individual European markets on the other has been co-operative ventures such as the £22bn European Fighter Aircraft (EFA), which four countries are developing.

But collaborative projects have rarely gone smoothly and have almost always brought extra costs and delays, in direct proportion to the number of partners. And beneath the gloss of new-found European co-operation, national sensitivities are never far beneath the surface.

The clearest evidence of this is the trouble that has broken out over the EFA radar, for which a £300m development contract is awaiting a decision by late April.

The sophisticated radar, worth up to £2bn in total if the aircraft goes into full production, is subject to competition, unlike the airframe and the engines, which are being handled by pre-arranged consortia.

The West Germans, who are re-equipping their Phantom fighters with radars by Hughes of the US, back an upgraded version of the same radar, proposed by AEG in conjunction with GEC-Marconi and Italian and Spanish partners.

Britain is strongly behind a Ferranti-designed rival, which, it is argued, represents more modern technology but is also regarded as more risky. Behind this lie other arguments: Bonn's concern about leaving the UK a leading role in all the aircraft's key elements, set against others' concern that use of US technology might lead to interference in prospective EFA exports.

The battle looks like being a bitter one. Major items of defence equipment, which are increasingly becoming integrated systems, are not like new models of TV set, which may fare more or less well on the market.

Either they sell or they do not, and the opportunities do not come around often. Moving away from arrangements whereby governments guarantee the survival of their main suppliers will be, at best, a difficult process.

David White
Defence Correspondent

Computing services companies

The bigger the better?

THE QUEST for size is being pursued vigorously among European computing services companies, worried that they may be beaten to the punch by their larger, better-capitalised US competitors.

Computing services is an important but ill-defined part of the European high technology scene. It includes software houses, consultancies, computer bureaux, and recruitment and training companies. More recently, computer leasing, maintenance and disaster-recovery organisations, traditionally outside the computing services arena, have been staking claims to a share of the market.

Most senior executives in the computing services business believe that within a few years, *the services sector will* be dominanted by a small number of very large companies. At present, the sector is distinguished by the presence of a large number of small companies, not one of which has a *significant market share*.

Mr Jerry Jerram, finance director of SD-Scicon, a UK-based computing services company, says: "The choice is to be one of 'the three F's' – a Ford, a Ferrari or a failure".

SD-Scicon is set on becoming a Ford of the computing services industry. Formed just over a year ago from the software house Systems Designers and the computing services company, Scicon, which *belonged to British Petroleum*, the company has spent most of the past 12 months going through the painful process of consolidation – successfully, it seems.

Mr Philip Swinstead, company chairman, says; "The very nature of the company has changed over the years. We are no longer a software house; we have become a systems integrator".

To be fair, to become a systems integrator, bringing together the most suitable hardware and software to suit a customer's needs, is the aims of virtually every company in the electronics sector now that margins on packaged software have been cut to the bone and hardware has become a commodity item.

SD-Scicon, however, is these days quite unlike a conventional software house – it carries out little contract programming ("body shopping"), for example, and so has very few programmers among its staff.

Systems integrators need to be big for several reasons; they have to have a good financial track record to convince their customers that they can tackle the role of prime contractor in as major assignment. They have to have a mix of skills, both technical and industrial, to be able to tackle a wide range of commercial projects. They also have to be large enough to absorb the costs and tribulations of a project going wrong.

And software projects do go wrong. Despite all the efforts of specialists in software engineering to improve the reliability of systems, there is always the possibility that a tender price will prove *hopelessly optimistic*.

The outstanding example of size in the European comput-

European companies are worried by US competitors

ing services industry is CAP-Gemini-Sogeti of France, *which over the years has* grown powerfully through acquisition both in Europe and the US.

It has a 20 per cent stake in Sema Group, the pan-European company formed through *the merger of Sema-Metra of* France and CAP Group of the UK, and has made no secret of its ambitions to acquire the Anglo-French systems house with a view to forming the first of the European giant systems integration companies.

It would, however, be a hostile takeover and as some 62 per cent of Sema's shares remain in friendly hands, chiefly Paribas and CIN of France, unlikely to be accomplished in the near future.

The fear is, however, that several of the larger European systems companies could be a prime target for acquisition by US computing services companies anxious to buy a stake in Europe before 1992 and the advent of the single European market.

Electronic Data Services (EDS), a subsidiary of General Motors, made a bid in the early 1980s for the UK systems house Logica, then in trouble through a poor financial performance in the US and in office systems. That bid was denied on political grounds.

Logica remains, however, a prime target for acquisition.

UK companies have been setting the pace in the US, however. According to organisations monitoring takeovers and mergers, activity in the UK computing services industry hit a record high in 1988.

Broadview Associates of New York, for example, estimated that it rose by 38 per cent over 1987. Overall acquisi*tion activity has grown at a* compound rate of 46 per cent over the past three years, Broadview said. Mr Keith Harpham, a director of Broadviews's London division, described the activity as *"feverish."*

"In 1988, Britain spent over £1.09bn in acquisitions in the US. This represents a sterling value equal to many times that which the UK invested in continental Europe, despite *the excitement over 1992.*"

A new development in the past two years has been the emergence of computer leasing companies aiming to become full-line computing services companies, based on their *extensive lists of blue chip* customers.

The "Ferraris" of the industry seem to have a profitable future, even if their ultimate fate is to be swallowed by one of the larger groupings. Examples include Systematica, a tiny company, based in Bournemouth, which has just signed a contract to supply software engineering tools to the European Space Agency.

The company, which will *turn over only about* £2.5m this year, secured a Europe-wide agreement last year with Digital Equipment, the world's second largest computer company, to supply its software on DEC's scientific workstations.

Mr Swinstead of SD/Scicon agrees that innovation within his company has dwindled as it moves from being technology-driven to a professional engineering enterprise. No matter how large the CGSs, Sema Groups, SD-Scicons or Logicas of Europe become, there will always be a need and a future for the small, inventive software house, willing to pursue a good idea to a profitable conclusion.

Alan Cane

Competition intensifies in the consumer electronics sector, says Paul Taylor

Another battleground ahead

WHILE CONSOLIDATION has continued in the European consumer electronics industry, the European Community has begun taking a tougher line on "dumped" products from Asian producers. But the future of the industry – and the next competitive battleground – lies in the emerging market for *the next generation of digital* high performance equipment, including high definition television.

As competition has grown, a small group of European multinationals still committed to the *consumer electronics market*place have emerged. These include Philips of the Netherlands, Thomson of France and the fast-growing Nokia group of Finland. They see their future dependant not only on the growth of the West European market as 1992 approaches, but also on being able to compete in the global marketplace.

Thus, the past two years has witnessed a new round of acquisitions and consolidation as the major players jostle for position. Thomson, the French nationalised electronics company, bought Britain's top television producer, Thorn- EMI's Ferguson and then acquired the RCA consumer electronics division of General Electric of the US in 1987.

Meanwhile, Nokia, one of Finland's biggest companies – which until a decade was ago was a traditional cable, paper and rubber products manufacturer – has diversified rapidly acquiring the television division of West Germany's Standard Elektrik Lorenz, a subsidiary of Alcatel and formerly part of ITT to add to its earlier *consumer electronics acquisi*tions.

Nokia is now the third largest television manufacturer in Europe behind Philips and Thomson which account for about half of West European television production.

But the figures do disguise some anomalies. A surge of cheap imports in the small screen colour television segment of the market, particularly from manufacturers in South Korea, Singapore, Hong Kong and China, has prompted an anti-dumping investigation by the European Commission. Meanwhile, Japanese and other East Asian groups have been expanding their EC consumer electronics manufacturing operations, particularly in the Britain.

Similarly, smaller European groups which have until now relied mainly on importing finished products or components from East Asia, are re-examining their operations. For example,Hinari, the Scottish consumer electronics group, which claims 10 per cent of the UK market for 14-inch sets and which has so far imported all its products from East Asia, announced earlier this month that it is to assemble 14-inch televisions at Cumbernauld near Glasgow from next *month*.

Hinari originally intended to manufacture video recorders at the Cumbernauld plant. That plan was dropped when it emerged that they were not threatened by anti-dumping action. But not all video-cassette recorder (VCR) imports have escaped EC action. Last month the Community accepted price undertakings from four out of five South Korean and Japanese VCR producers but imposed duties on Orion of Japan.

Both kinds of penalty will have the impact of raising the prices in the EC's £1.1bn market for VCRs where 7m units were sold last year. compared to 5.8m in 1984.

But while these protectionist measures may give the big European manufacturers some breathing space, they are essentially backward-looking moves. The next great battle, that for market dominance in the emerging markets for advanced television is still to be waged.

Thomson's purchase of General Electric's consumer electronics division not only gave it a major US presence with the GE and RCA brands – it also provided access to to GE and RCA's advanced technology in consumer electronics.

In particular, it gave Thompson access to the work GE/RCA Consumer Electronics had already done on the next generation of television technology, called high-definition television.

HDTV offers the prospect of doubling, or more than doubling, the number of lines across the screen that make up a TV picture, and thereby offering cinema-style picture-quality viewing on a wider home TV receiver.

Emerging European and US proposals for HDTV are in response to a Japanese alternative developed over the last 20 years by NHK, the Japanese state broadcasting group. The Japanese system is based on a new television transmission standard, the MUSE (Multiple Sub-Nyquist Sampling Encoding) System.

The main disadvantage of MUSE, as perceived by the European broadcasting and manufacturing industries, is that it would make all existing television sets, broadcast and production systems obsolete.

While the Japanese system is due to reach the marketplace in the next couple of years – with full-scale high definition broadcasts due to begin in Japan next year, well ahead of its rivals the Europeans are banking on the attractions of adopting an evolutionary approach that would protect investments in television sets, broadcast and production equipment.

A global race is on to develop advanced televison standards

The European initiative, based on the rival MAC (multiplexed Analogue Components) transmission system, would allow new wide-screen sets, as well as the the millions of existing sets already in use, to receive future high-definition transmissions, although older sets would not benefit from the sharper image.

The concept of an upward evolutionary path towards full HDTV has been enshrined in the work of the 30 broadcasting and equipment manufacturers, including Philips, Thomson and Bosch groups who are co-operating on an HDTV project under the auspices of Eureka, the European programme for co-operation in high technology.

The Eureka HDTV programme is aimed at developing a new European television standard for the 1990s. The first public showing of the new system took place at the International Broadcasting Convention in Brighton, last September.

The global race now under way to develop new advanced television standards is more than a matter of national pride. The shift from analog to digital technology in television sets, hi-fi equipment, home automation and other personal entertainment markets, is accelerating.

Digitally-enhanced video cassette recorders are coming as are gadgets for managing the home. The CD video has already arrived in Japan, the US and now Europe, although sales are currently depressed by a lack of software.

By 1991, the value added to the world wide consumer electronics market by digital products and components will probably amount to $10bn, according to some estimates. The US Commerce Department has estimated that by 2000, the world market for HDTV alone will grow to $40bn, with about half that in the US.

But there is another reason why Europe, and now the US, is concerned not to be left behind by the Japanese again. HDTV requires massive investment in semiconductor and other technologies and these technology and expertise have important applications in other spheres including computers and defence electronics.

It is this concern about the erosion of both technological leadership and competitiveness which is primarily behind the current *scramble in the US to* define its own HDTV project.

It is increasingly likely that consumers will, once again, face the prospect that HDTV, like its lower definition predecessor, spawn three different *non-compatible standards* operating on the world's two mains standards, 50Hz and 60H.

This was made more likely last autumn when the US Federal Communications Commission set out its plans for an HDTV standard, different from both those in Japan and Europe.

Nevertheless, by the year 2000, BIS Mackintosh predicts there will be 10.8m full HDTV receivers in the world, rising to 207.8m, ten years later.

Ahead of the surge in HDTV sales, BIS predicts an intermediate growth phase of advanced television equipment such as MAC TV, wide-screen MAC TV and so-called EDTV (enhanced definition television) receivers, all offering improved picture quality.

By the mid-1990s, it is probable that a quarter of homes in some leading markets will have 'improved-definition' television.

This process could be accelerated in Europe by the advent of direct broadcast satellite transmission, particularly the launch in September of British Satellite Broadcasting's three-channel service.

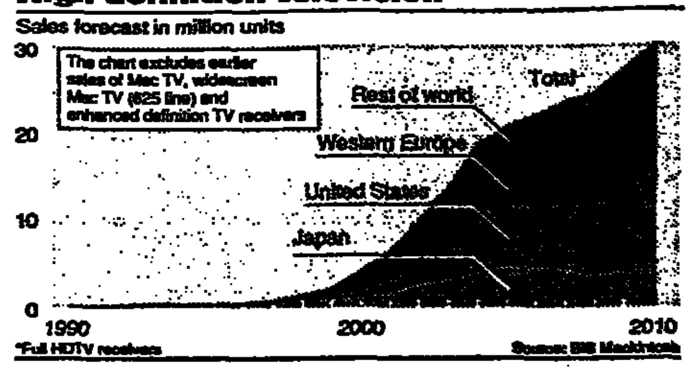
Unlike Mr Rupert Murdoch's already-launched Sky service which uses the PAL television standard, BSB – a consortium whose shareholders include Bond Corporation of Australia, Granada and Pearson, owner of the Financial Times – will be using the MAC standard, offering those, with the right equipment, digital stereo sound and television pictures with 50 per cent more detail than at present.

As Mr Peter Groenenboom, managing director of consumer electronics at Philips International acknowledged when Philips agreed last month to make 1m television decoders for BSB, MAC is "the engine of the future."

Mr Bob Whiskin, executive director of BIS Mackintosh, adds: "BSB's success is important for MAC and therefore HDTV . . . if BSB does not succeed it would push back advanced television."

High definition television*

Sales forecast in million units



*Full HDTV receivers Source: BIS Mackintosh

Semiconductor production

A glaring weakness

ONE OF the glaring weaknesses of the domestically-based European electronics industry lies in semiconductor technology.

Ever since the invention of silicon-based memory chips in California 30 years ago, home-grown European companies have struggled to establish a place for themselves in world markets. They have failed to match either the inventive dynamism of the American companies or the scale of investment of the Japanese manufacturers.

As a result, European production is outstripped by the Japanese and American industries, while the larger indigenous European companies lag well behind their overseas competitors in size. European manufacturing is also highly dependent on foreign-owned producers, mainly US companies, but increasingly Japanese, which account for about half of the sales of the region.

Does this matter? There is a school of argument, strongly supported in the UK, which says that semiconductor technology is so expensive to maintain that European companies operating in their highly fragmented regional market cannot afford to be in the race.

The key issue, according to this argument, is for electronic equipment manufacturers to have easy access to the latest chip designs to incorporate into their equipment – television sets, computers, toys, washing machines, military radar and the like.

Opponents of this view contend that semiconductors are an essential enabling technology. Knowledge of the latest chip devices, they say, helps equipment companies to stay ahead of the competition in their own industries.

Indeed, the American dominance of computer manufacturing and the Japanese success in consumer electronics are often ascribed to their skills in semiconductor technology: chip manufacturing in these countries combines in a virtuous circle with equipment production to create a strong electronics industry as a whole.

Whatever the validity of these arguments, the fact is that European companies are under severe pressure in their local market. In 1988, seven out of the top ten chip companies selling semiconductors in Europe were foreign, and five of these had substantial production facilities in the region. Half of the following ten companies were also foreign - and included, in the Japanese and South Koreans, some of the fastest growing groups in the industry.

The response to this pressure from overseas has produced a mixture of political and industrial initiatives.

First of all, European Governments have tried to foster their domestic industries behind protective tariffs. Under the European Community trading regulations this now stands at 14 per cent, a figure which is sufficiently burdensome to have persuaded several foreign companies to increase their production in Europe, particularly when they build their businesses up to a significant volume.

Some argue that Europe cannot afford to enter the expensive semiconductor race

In the last two years, this policy has been reinforced by stronger action on fair trading grounds. One of these moves has involved anti-dumping action against Japanese companies for a range of memory chip products – an inquiry which still has to be resolved.

More recently, the European Commission has ruled that chips qualifying as made in Europe have to go through the elaborate "diffusion" process in the region. This will put pressure on Japanese companies to invest in plants in Europe because many chip users need to buy locally-manufactured components to avoid anti-dumping duties.

Second, there has been a series of Government-backed initiatives aimed both at strengthening European research and development and improving the production capability of the industry.

■ SGS in Italy and Thomson in France, two companies that have now formally merged their chip activities, are working on electronically programmable memories under funding provided by Eureka, the bi-lateral device for inter-State collaborative research ventures.

■ Philips of the Netherlands and Siemens in West Germany are now at the end of the Megaproject, designed to bring them up to date in the field of static and dynamic random access memory chips.

■ A much broader initiative growing out of the Megaproject is now getting under way to help European companies develop the manufacturing technology for the next generation of chips. Called the Joint European Semiconductor Silicon (JESSI) project, this is headed by three main companies – Philips, Siemens and ST (the former SGS-Thomson group), but will also include a number of other chip manufacturers.

Apart from its importance in the semiconductor field, JESSI promises to be an important catalyst in the development of European thinking about high technology research in general.

It is a very large programme, which may cost a total of around ECU4bn – much more than any other individual programme outside the special case of the nuclear industry. It is also bringing together both producers and users in a move aimed at making research more market oriented. And it may well lead to an innovative linkage between research funded by the European Community and projects financed by individual Governments.

■ The rate of rationalisation and streamlining in the European industry has also accelerated in the last few years.

The most far-reaching of these moves has been the creation through merger of the Italian-French ST group, which has become the second largest producer in the region after Philips.

ST is currently planning to establish a further European base in the UK with the purchase of a controlling interest in Inmos, the specialist transputer manufacturer owned by Thorn EMI.

Another shake-out has occurred in the domestic UK industry with the acquisition of Ferranti's components division by Plessey. Although Plessey is still not large enough after this deal to move into Europe's top ten semiconductor groups, the company has become one of the region's largest specialist producers of semi-custom chips.

Terry Dodsworth

TELECOMMUNICATIONS

Big test begins

WITHIN THE next few months, the massive restructuring that has swept the European telecommunications scene in recent years, should be almost finished.

Whether this restructuring will be successful in injecting a new commercialism into the industry remains to be seen. What is clear, however, is that the region's industry will have consolidated itself into two and possibly three large companies, which should be capable of funding research into the next generation of public telecommunications products.

The pressure on research budgets is probably the most significant factor behind the industry's concentration. As telecommunications products – particularly the computerised exchanges that are at the heart of modern networks – have become more and more sophisticated, the cost of developing each successive generation has shot up.

A few years ago, the European telecommunications industry was fragmented. Each country had its national champions, but many of these had little business outside their borders. This led to fears that their sales would not be large enough to justify the upgrading of their products, which in turn has been the spur behind the restructuring.

The five most important events in this process have been:

■ The merger of ITT of US's telecommunications interests with Alcatel of France in 1987 to create a company with $11bn of telecommunications sales.

■ The takeover of CGCT of France by Ericsson of Sweden in 1987.

■ The formation of GPT in 1988 by merging the telecommunications interests of GEC and Plessey, both of the UK.

■ The joint bid by GEC and Siemens of West Germany for Plessey late last year: if this bid – which is now under investigation by the UK's Monopolies and Mergers Commission – proceeds, Siemens will take a 40 per cent stake in GPT, creating the world's third largest telecommunications grouping after AT&T of the US and Alcatel.

If the bid does not go ahead, it is highly unlikely that GPT will remain independent, with the most likely options being a partnership with either AT&T or Siemens.

■ The proposed deal between AT&T and Italtel, Italy's principal telecommunications manufacturer: the precise details of this deal are still being negotiated, but it would put Italtel firmly in the AT&T camp.

The upshot of all this activity will mean that shortly there will be very little of Europe's telecommunications industry that is not tied to one or other of the large international groupings.

A few questions still remain on the restructuring front. First, will Ericsson – the smallest of major European players - be large enough to survive without some further link-up?

Second, will STC of the UK, which is no longer in mainstream switching business, be able to continue with its successful strategy of concentrating on transmission systems and intelligent networks?

The question here concerns mainly how the relationship between STC and its 27 per cent shareholder, Northern Telecom of Canada, develops – a relationship which both companies insist is working well. In the long run, however, the focus will be on whether the newly-created European giants will be able to respond to market opportunities in a way that their predecessors were often unable to. Four questions stand out.

The pressure of research costs has encouraged the industry's concentration

■ Will the European Commission's Green Paper on liberalising telecommunications succeed in injecting dynamism into the market?

One of the key considerations will be whether the internal barriers on public procurement really come down, or whether national telephone operators continue to stick with their preferred suppliers. Advocates of the Green Paper argue that, if companies are forced to compete for business in Europe, they will drive down costs so enabling them to win export business.

■ How innovative will the telephone operators be in modernising their networks?

In the area of transmission systems – particularly opto-electronic products such as programmable digital multiplexers – European companies are at the forefront of technological developments. However, to maintain this lead, they will need to find mass markets for their products which would allow them to drive down their costs.

An important influence on the speed of modernising these networks is likely to be whether telephone operators are allowed to offer television services over their networks.

■ Will the telecommunications manufacturers be successful in penetrating new markets behind the iron curtain and in maintaining their strong position in the third world – both parts of the world where expenditure on telecommunications products is expected to increase rapidly in coming years?

The most significant development on this front is the news that Alcatel is close to signing a deal to supply large quantities of digital exchanges to the Soviet Union.

Hugo Dixon

Lively market for mobile communications

Entering a new arena

ONE OF the liveliest of the high-technology markets is mobile communications. However, behind the image of the yuppie making calls from his or her car phone, is a dramatic change in technology and lifestyles that is rapidly moving mobile communications out of the preserve of the few and into the mass-market arena.

Many of the new ideas in European mobile communications have been generated in Britain, where the Government has been pursuing a policy of liberalising telecommunications for several years and has seized on mobile communications as a priority area.

In giving the go-ahead for the UK cellular system in the mid-1980s, the Government took two decisions, which are being credited for the disproportionate success of the UK market compared with that in most other European countries, apart from Scandinavia.

First, it awarded a licence to Racal Telecom, as well as to the established telephone operator, British Telecom. Second, it said cellular operators would not be allowed to sell their services direct to customers, but would have to use intermediaries.

The result has been the creation of an industry of entrepreneurs, competing vigorously against each other sell cellular services. The system has been so successful that Racal Telecom, a company that is only four years old, is now capitalised on the stock market at about £3bn.

Several other European countries are now following the UK pattern. France has already chosen Cofira, a private-sector company in which Racal Telecom has a small stake, as a second competitor to France Telecom.

West Germany is due to choose a competitor in cellular telecommunications to the Bundespost later this year. The battle for this second licence is already developing into an interesting fight. Those entering the fray include major German industrial companies such as Daimler Benz and BMW, European telecommunications operators such as BT, Cofira and Racal Telecom, and several of the US 'Baby Bell' telecommunications operators.

Meanwhile, 15 European countries have joined together to agree a common standard for the next generation cellular system – the pan-European digital network. This will allow people to drive from Stockholm to Naples using the same car phone and is due to start coming into operation from 1991.

The pan-European network will also create a single market for cellular equipment, which is expected to be valued at around £700m a year in the mid-1990s. This should help European manufacturers such as Siemens of West Germany, Alcatel of France and Ericsson of Sweden build up sufficient economies of scale to compete on the world market, particularly because Europe is pioneering this technology.

Non-European companies will not, however, be kept out of the market. Motorola of the US, for example, has already been successful in winning contracts to provide the infrastructure for the new network, while Japanese manufacturers are expected to prove strong competitors in the market for the handsets.

Nevertheless, much of the impetus for new ideas in the mobile area will probably continue to come from the UK. Three particular ideas stand out:

■ First, telepoint. In January, the UK Government licensed four consortia to operate a new portable phone service, called telepoint. The technology for this service was developed in the UK and its exploitation is being pioneered there. It will allow people to make outgoing phone calls when they are within a hundred yards of a radio base station, thousands of which will be set up in prime locations around the country.

In many ways, telepoint is more limited than cellular communications. People have to find a base station to make a call and they cannot receive calls. Set against this, however, is the fact that the system will be much cheaper to use and the handsets will be small enough for people to put them into their pockets.

Other European countries – as well as the US and Japan – are now watching the UK experiment with interest. For example, France Telecom, which has a minority stake in one of the UK licences, is keen to move ahead with a network in France.

■ The second new concept that has come out of the UK is "personal communications". This is envisaged as something of a cross between cellular and telepoint. People would be able to receive as well as make phone calls and, within urban areas, would not have to hunt around for a base station.

■ The third idea being worked on in the UK is to auction-off the radio spectrum to the highest bidder, rather than allocating it on the present bureaucratic basis. The Department of Trade and Industry is aiming to bring out proposals to move to such an auctioning system this summer.

Auctioning-off the radio spectrum could have profound implications for the further development of mobile communications, as one of the main constraints on the introduction of new services has been the lack of air waves to transmit the services over.

Hugo Dixon

The quest for advanced materials

Key research area

IT HAS been suggested that advanced materials may be one of the technology pillars of the 21st century, with the greatest advances expected outside of Europe.

This may turn out to be the case, but the technology pillar is more likely to be supporting specialised, high-spending areas of industry, such as defence, where the benefits of exploiting advanced materials are great and unobtainable in any other way, than by providing a technological uplift across the industrial spectrum. That may come later, on the back of the early applications.

Hence, the ability to compete in the rapidly developing sector of advanced materials is likely to be determined in large measure by the scale of a country's defence spending and by the scale of spending in other sectors where the benefits are perceived to be great, such as the electronics and the automotive industries.

These are the areas where advanced materials are likely to find their earliest applications; it is where the money and the motivation lies, where most of the research effort is being directed, especially to meet unprecedented demands for improvements in the performance of military systems, with tighter control of costs as defence budgets get squeezed by increasingly costly demands.

The US has the biggest defence spending in the West and is the world leader in advanced materials. The Northrop Corporation has recently completed the B2 Stealth strategic bomber, made largely of advanced new materials, such as composites and other non-metallic materials to avoid detetction by radar.

Such a concentrated programme would be inconceivable elsewhere in the West, and certainly Europe is a long way from providing a coordinated effort to rival that of the US in advanced materials.

The range of potential advanced materials is very great. It includes the broad categories of ceramics; metals, including processing by the "new" metallurgy, where exotic metals can be sprayed, or evaporated molecule by molecule on to surfaces; bionics, where biological processes could be used to produce strong materials and where structural designs in nature could be mimicked with larger scale versions made either from biological materials, such as silk, or from other materials.

There are also prospective further developments in composite materials and polymers.

In the ceramics field, a world market worth $3bn, the industry is fragmented and difficult to define, with much of the fundamental research work being carried out by the ultimate users of the materials.

These include those companies which seek advanced performance for products that have to operate at very high temperatures. These companies are engine manufacturers, especially aero-engine companies.

In Europe, these include Fiat Aviazione of Italy, Motoren und Turbinen Union (MTU) of West Germany, Rolls-Royce of the UK and Snecma of France — all aero-engine makers which are seeking materials to operate at higher temperature.

The potential prizes are enormous, with engine thrusts up to 20 times the weight of an engine possible through the use of high temperature ceramics, compared with thrust to weighjt ratios of about eight to one for current engines.

The US leads the way in research, but the range of potential new materials remains great

The competition is intense for European companies to develop ceramic materials for use in aero-engines. US companies such as General Electric and Pratt & Whitney are world leaders in aero-engine sales and the European manufacturers have found it necessary to form links with the larger US manufacturers.

Fiat, Rolls-Royce and MTU are partners with Pratt & Whitney in the International Aero Engbines consortium, which also includes Japanese companies.

Elsewhere in Europe, manufacturers of automotive engines, such as Klockner Humbolt Deutz are working on ceramic materials for their diesel engines.

The apparent predominance of material users in the ceramics research and development field is at the expense of the primary manufacturers of the materials.

The value for silicon when processed *into a form suitable* for high value added applications, for example, is about 400 times the value of the silicon simply as a material, according to McKinsey, management consultants.

For polyvinylidene fluoride, a polymer, the value in end user applications could be as much as 1,500 times the value of the polymer as a material.

These figures illustrate why user companies seek to keep control of the research on advanced materials and why they act in competition with the material producers, who have little power to develop a monopoly of research.

The composites branch of advanced materials is becoming dominated by chemical multinational companies, according to McKinsey. Of these, European companies such as ICI and BP of the UK, Ciba-Geigy of Switzerland, BASF of West Germany and Shell of The Netherlands are competing with US companies such as American Cynamid.

The total world market is estimated at $1.5bn.

In the polymers sector, again dominated by chemical multinationals, West German companies such as Hoechst, BASF and Bayer and US General Electric have about 70 per cent of the world market worth an estimated $2bn to $5bn, for polymer resins.

In the metals sector, an advanced materials market worth about $5bn, according to McKinsey, there is limited competition on a metal by metal basis.

Of the metals currently *being investigated, aluminium* lithium potentially is the most interesting of the traditional alloys. The French company, Cegedur Pechiney filed a patent relating to the production of aluminium lithium alloy as far back as 1958.

By 1963, the first casts of aluminium lithium magnesium alloy had been produced. The material is light but stronger than ordinary aluminium, but still not easy to produce and has not yet seen widespread application.

The world market for advanced electronic materials is estimated by McKinsey to be worth between $10bn and $15bn with an annual growth rate of 10 to 15 per cent a year. The industry is still fragmented, but is coming under the control of multi-national chemical companies.

Lynton McLain

Electronic applications in the motor industry

The car of the future

THE MOTOR industry, and the major component producers who supply it, such as Robert Bosch of West Germany, are among Europe's largest users and developers of high technology — an inevitable consequence of the car being the end-product of the world's single largest manufacturing industry, as well as by far the most complex of all 'consumer durables.'

The car is also now undergoing a technological transformation greater than at any *time in the past,* and which is likely to be still going on at the turn of the century. It is embracing not only sweeping change to the product itself as the age of the 'intelligent' car draws near, but also to its means of production.

The technologies involved range from electronics, the basis of the 'intelligent' car of the future in which its principal systems will be under computer control — much like a 'fly-by-wire' aircraft — through to plastic composites, automated high-volume aluminium fabrication and processing, and even fibre optics.

Inevitably, the versatility of electronics and their application to so many of the car's systems, has meant them receiving the lion's share of attention, with most industry analysts forecasting at least a doubling of electronic content, to 20 per cent or more of the car's value, by the late 1990s.

Electronics are making possible, for example:

□ Anti-skid braking and traction control systems, (the latter to prevent wheel-spin under acceleration).

□ Sophisticated management of the engine's fuel injection and ignition for optimum fuel efficiency and performance.

□ And variable suspension, in which sensors monitor the car's progress and keep it level during cornering or under braking, or even allow the driver to choose a soft, medium or sports ride by means of a dashboard-mounted selector switch.

Not too far into the future could even be 'active' steering, in which the driver's steering wheel movements simply send digital signals to the road wheels.

Ford sees its own 'intelligent' car of the end of the century have "everything from piston to wheel" under the control of one central on-board computer.

Europe can pride itself on having played a lead role in such developments. Bosch and Alfred Teves, also of West Germany, have been pioneers of electronics-based systems such as skid and traction control, and are investing heavily in their own right.

Group Lotus of the UK, now part of General Motors, can take the credit for pioneering the electronically-controlled 'active' suspension systems which will appear progressively on a number of manufacturers' vehicles during the 1990s, and in which a system of two-way, miniaturised hydraulic rams will sense road irregularities and take counter-measures to keep the vehicle's ride smooth.

This widening use of electronics is, however, generating its own problems. The electrical currents used in the systems are low, and relatively easily subject to interference.

As more systems go into the car, so the risk grows of malfunction as a result of external interference from sources such as microwave towers and even, in some extreme cases, radio stations and cellular telephones.

This has led to the construction of 'EMC' (electro-magnetic compatibility) chambers in which cars with electronic systems can be bombarded with interference across a wide spectrum of frequencies for test purposes.

So far, companies making even particularly complex 'high-tech' cars, such as BMW, have been able to stay ahead of the problems — but the challenge to do so can only become tougher in the next few years.

John Griffiths

Flexible manufacturing systems

Market worth $620m a year

NEW RESEARCH shows that economies of scale no longer feature as the top priority in the plans of much of Europe's manufacturing industry which, by 1991, will be spending $1.9bn a year on flexible manufacturing systems.

Without some means to adapt to the dizzying pace with which new products are brought to market, expensive re-tooling would be required almost incessantly, according to the market research group, Frost and Sullivan.*

"Rapid changes in technology have substantially reduced today's product life cycle," says the study.

The so-called "flexible manufacturing systems" (FMS) strategy uses computer-control of common assembly tools to produce a range of products solely through changes in the instructions which they are given. This provides the ability to quickly change over from work on one batch of products to another, or even on a mixed range of products.

Analysts at Frost and Sullivan say that European industry is now spending $620m a year on FMS, and predicts that this will rise by 33 per cent a year through to 1991.

West Germany has undoubtedly been the leader with some 35 full-scale FMS systems in operation by the end of 1985, mostly in the automotive industry. The country had 31 per cent of the 1987 European market, valued at £200m.

Britain's share of the European market, which accounted for a fifth in 1987, or $122m (£83m), will decrease, say analysts. The UK machine tool industry is suffering heavily from Japanese competition, while the mechanical engineering sector has performed poorly recently — 1986 output was below the 1980 level — and, in terms of robots, the UK has fallen behind its former pre-eminent position.

France now has 18 per cent of the European market — worth $113m in 1987 — and the highest growth rate at 42 per cent a year.

A survey of around 60 manufacturing companies, undertaken by CMG Management Consultancy to establish what the general reaction was to computer integrated manufacturing (CIM) and factory automation, primarily in the UK, supports the somewhat gloomy picture painted by Frost and Sullivan.

"Many of them felt that they had automated for the sake of automation and that there had probably been an over-investment," says Mr Frank Burridge at CMG Management Consultancy.

"Two or three of them felt that they were achieving the true success that they had planned. As for the rest, the reason for their lack of success was that they did not evaluate the organisational implications properly."

Customer-service economy and quality are the main issues facing manufacturing companies, and they need to be addressed first before CIM is taken on board. The philosophy of many manufacturing companies in the past has been "let us make what we can sell," whereas today it is "let us sell what we can make."

Manufacturing companies have to set competitive delivery lead times and the first factor that must be recognised is that marketing should "lead" manufacturing, says Mr Burridge. This requires a process of evaluation and analysis which defines competitive delivery lead-times against product lines.

Thereafter, they are better able to identify what products should be manufactured to feed those markets. Only then should they look at the level of technology being utilised within the production environment, he suggests.

"In some instances, it may even mean that they have to get rid of some of the trivial technology they currently use within their plants. They may be better-off moving it outside and subcontracting for these services, for example."

Quality, at one time the driving force of manufacturing industry, is often taking second place to customer service. The order now is: right product, right time, right quality, right price..

Logistics management and just-in-time (JIT) scheduling are the tools of the new order. The Austin Rover Group (ARG), for example, has apparently made savings of £35m a year since it launched its JIT or "minimal inventory" programme.

West Germany leads the way in the use of these systems

These disciplines help companies to evaluate what they are achieving, not only on the demand side, but also on how they control their supply chain.

In Europe, 1992 will usher in an era of increasing competition and alliances — and one trend among of manufactures in the future will be "co-makership" — co-operative ventures with suppliers to share profits and to increase turnaround. Standards like Manufacturing Automation Protocol (MAP) will facilitate this process, but standards-making is always an emotionally-charged affair.

"My experience in the US tells me that a lot of companies are now getting hurt as a result of moving into MAP," says Mr Burridge.

General Motors, the main proponent for MAP and Ungermann-Bass, a leading supplier of local area networks (LANs) which form a major component of factory automation, has apparently fallen out with the latter's announcement, last October, that it would stop supporting the MAP-specified token-bus LAN because a stable market has not materialised.

The software house, Logica, sees a slow UK uptake for MAP in part because alternatives are available, and users are unaware of its benefits.

Mike Clark, principal consultant at Logica Energy and Industry Systems, anticipates that solutions for CIM will become increasingly heterogeneous in that no single supplier will supply the entire system. That puts pressure on manufacturers to adopt standards — but standards seem to move along erratically and, in the meantime, manufacturers adopt piecemeal solutions.

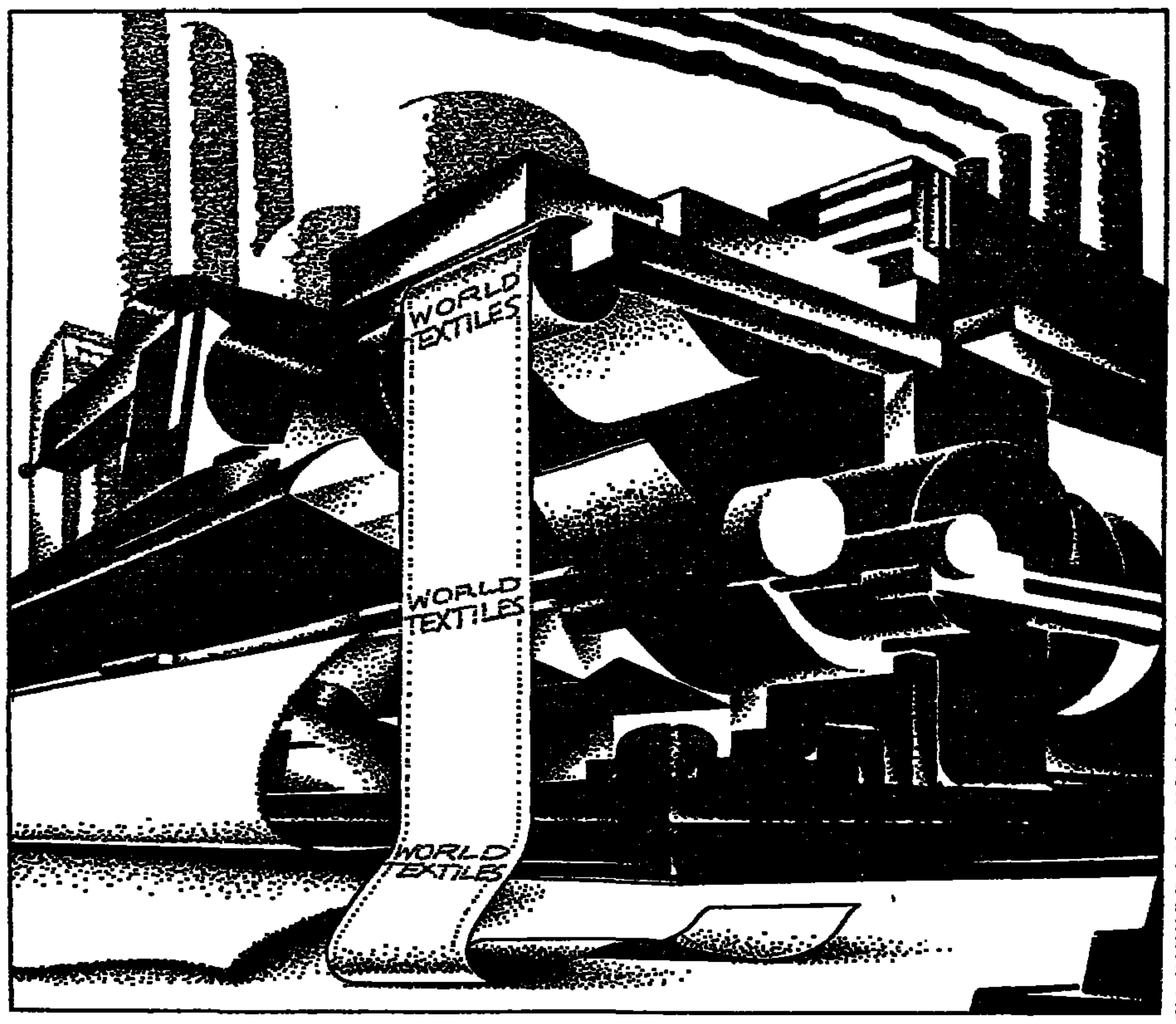
"Flexible Manufacturing Systems and Assembly in Europe," from Frost and Sullivan, 4 Grosvenor Gardens, London, SW1W 0DH.

Boris Sedacca

SECTION IV
FINANCIAL TIMES SURVEY

Technological advances are helping Europe and North America to contain South-East Asia's cost advantages. And, though the US has lagged behind in investment, the weak dollar has put most pressure on the EC industry, writes **Alice Rawsthorn**

Investors stay in fashion



World TEXTILE Industry

CONTENTS

☐ *Illustration: Mark Thomas*

TEXTILES IS one of the world's truly international industries: for centuries cloths and clothing have been shipped across the world from country to country.

The international nature of the industry means that the balance of trade is in a constant state of flux as new centres of production challenge the old. The labour-intensive nature of production and the low cost of entry have ensured that textiles is established as the first form of industrial activity for any emerging economy in search of employment and foreign exchange.

Until the 1980s the industry's development was dominated by the expansion of South-East Asia at the expense of the established industries of Europe and North America. Yet in recent years advances in technology have helped the established industries to fight back. Technology has increased the capital intensity of the production process, enabling the Europeans and North Americans to erode the cost advantage of the South-East Asians.

The Italians and West Germans have already used technology to great effect. Other countries – notably the US, UK and France – have been somewhat slower. In the next few years it will become apparent whether the established industries are really capable of recapturing their lost competitiveness in textiles.

Today's international textile industry is extraordinarily diverse. It encompasses everything from cloth to carpets and towels to T-shirts. It stretches from the *haute couture* salons of Paris to the dilapidated shacks of the Bangkok waterfront.

The South-East Asians first emerged as a force in the 1950s and 1960s. In the early 1970s the first Multi-Fibre Arrangement – a system of trading quotas – was introduced as a temporary measure to enable the Western industries to adapt to the new climate.

The "temporary measure" still exists today. It took the economic recession of the late 1970s and early 1980s to force the European and North American textile groups to get to grips with the long-term problem of struggling against an apparently inexorable increase of imports in a mature market.

The early 1980s heralded an era of radical restructuring for the established industries as they shed excess capacity. The cost was high. A combination of rationalisation and higher productivity has reduced the textile workforce in the European Community alone by a quarter since 1980.

Yet the restructuring was accompanied by investment. The technological advances of the last decade – computerised cutting in clothing, air-jet weaving and shuttleless spinning systems – have enabled the established industries to cut costs and to create a competitive advantage by offering a faster, more flexible service.

The successful companies have been those that have made the most of these advances. The Italians have combined consistent investment with innovative design to create one of the most dynamic textile industries. Similarly, the West Germans have obviated the problem of high labour costs through hefty investment and an extraordinarily efficient system of subcontracting production from Eastern Europe.

Italy and West Germany are now established as the world's biggest exporters of textiles and clothing. But they are the exceptions. Overall, the established industries have been slow to take advantage of new technology.

One reason is that the growth of textile consumption in the developing economies has been unexpectedly slow in the 1980s because of the burden of Third World debt. Hence the level of competition within the static markets of Europe and North America has been intense.

Another factor is that the pace of automation in clothing has lagged behind spinning and weaving. The spinners and weavers, depending on local clothing companies as their chief source of custom, have been unable to take full advantage of new technology.

But the principal problem has been the failure of the established industries to invest. The level of automation in US textiles, for example, is far lower than in Italy or West Germany. Werner International, the management consultancy, estimates that just 6.5 per cent of US spinning machinery is less than 10 years old, compared with 24 per cent in West Germany and 43 per cent in Italy.

The outlook is no more encouraging. The US textile groups have increased capital expenditure since the mid-1980s, but the recent rash of bids and leveraged buy-outs means that many of the giant groups – like Burlington and Farley – are burdened by debt. These debts may inhibit capital expenditure in the future.

Moreover, the industry is as plagued as ever by the volatility of the textile trade, which remains vulnerable to every economic shift.

In the mid-1980s, when the US dollar was strong, the EC industry was comparatively competitive against South-East Asia, where currencies are linked to the dollar. But in the last three years, the dollar has declined and the Europeans have experienced a tougher trading environment.

The South-East Asians have found it less lucrative to sell to the US and have diverted shipments to Europe. European manufacturers have faced a fresh influx of imports at a time when they are finding it more difficult to compete in their export markets.

The impact on the EC industry has been severe. The influx of imports has not only put pressure on output but has depressed profitability. Coats Viyella, the UK group which is the biggest force in European textiles, reduced its workforce by 4,000, or 5 per cent, last year.

Conversely, the US industry is enjoying a respite from the competitive pressures that proved so damaging in the early and mid-1980s. Both the textile and clothing industries benefited from a modest increase in output last year, according to the US Department of Commerce.

The volatility due to economic change has been aggravated by shifting fashion trends. However capital-intensive the industry becomes, it is still prey to new vogues in fashion. The decline in demand for jeans in North America last year forced Levi Strauss, the world's biggest clothing company, to lay off 1,600 people in the US.

Another source of instability has been the appearance of new production centres. The larger South-East Asian centres of Hong Kong, South Korea and Taiwan are struggling to counter the problem of rising labour costs by upgrading their output. Meanwhile new centres like Indonesia are now established as low cost sources.

But the emergence of Indonesia is almost inconsequential in comparison with that of Turkey and China. Both countries have invested heavily in textile capacity during the 1980s. Turkey is now one of the biggest exporters to the European Community and has already caused considerable damage to parts of the European industry by targeting specific sectors such as acrylic spinning.

China, with its immense reservoir of low cost labour and wealth of raw materials, is already a leading player in North America. Its attempts to raise sales of silk, linen and cashmere – where it is a leading source of raw materials – have created chaos.

The framework for the world textile trade will be thrashed out during the next year or so as negotiations begin on the renewal of the MFA, which expires in 1991. It is not yet clear what will happen to the MFA: whether it will be renewed and, if so, in what form.

The US position is complicated by several unsuccessful attempts to implement protectionist legislation for textiles, while the European Commission is publicly committed to replacing the MFA with free trade under the aegis of the Gatt.

The issue of the MFA will also have a bearing on the EC's deliberations over the fate of the textile industry after the introduction of the unified market in 1992. The initial indications are that, after 1992, it will not only be easier for external suppliers to enter the Community, but that intra-EC competition will intensify.

The approach of 1992 is one of the chief catalysts for the recent flurry of international investment in the textiles sector. One area of expansion has been in sub-contracting, whereby companies in high wage economies commission part of their production from lower cost countries.

The West Germans have pursued such a system successfully in Eastern Europe for many years. The US clothing companies are now increasing their links with sub-contractors in the Caribbean.

Traditionally, textile groups have tended to concentrate their activities within individual countries. Yet the pace of international acquisitions has accelerated in the last year or so. Chargeurs and DMC have expanded outside their native France. Courtaulds of the UK has established an international position in lingerie fabrics. Hugo Boss of West Germany recently acquired a clothing company in the US.

Meanwhile three Japanese groups – Toray, Toyo Menka and Kurabo – have unveiled European deals since the start of the year.

The pace of change shows no sign of abating. And the competition between textile manufacturers - always notable for its ferocity - seems destined to get fiercer still.

The industry faces "an apparently inexorable influx of imports into a static market," writes **Alice Rawsthorn**

No sign that the pressure on Europe will abate

IN THEORY, the European Community's textile industry has everything going for it.

Europe is, after all, the undisputed centre of excellence in international textiles. The Paris and Milan fashion designers are the most influential in the world. The West German and Swiss engineering groups are still in the forefront of textile technology.

Yet theory, as the EC's textile companies have discovered to their cost, rarely translates into practice. Far from basking in the reflected glory of Yves St Laurent and Giorgio Armani – or congratulating itself on the innovations of Schlafhorst and Rieter – they are struggling to withstand an apparently inexorable influx of imports into the static European market.

In the last year or so the struggle has intensified. The decline of the US dollar – and of the related South-East Asian currencies – has made it much more difficult for the Europeans to compete in the international textile marketplace.

The EC textile industry is the most powerful in the world, with a workforce of 3m people. It dominates specific sectors of international textiles – silk, designer fashion, linen, knitwear and carpets – and is markedly more active on the export front than the US or Japan.

Yet the decline of the dollar threatens the Europeans in three areas:

- it has become more difficult, and less lucrative, for the South-East Asians to sell to the US, so they have diverted shipments to the more attractive markets of Europe.
- at the same time the South-East Asians have been able to take advantage of comparatively competitive currencies in the European market.
- conversely, the Europeans have experienced a slowdown of sales to the important markets of North America.

This cycle of increasing imports and sluggish exports is all too familiar for the EC textile groups. They have only just emerged from an era of radical restructuring and rationalisation in early 1980s, when the dollar's decline plunged their industry into a rigorous recession.


Ashley Ashwood/Trevor Humphries

Sir Christopher Hogg, chairman of Courtaulds (left) and Sir David Alliance, chief executive of Coats Viyella

Roger Taylor

Traditional weaving at the John England textile factory in South Belfast

So far, the mini-slump of the late 1980s has been somewhat less severe. Yet the industry has undoubtedly been plunged into a more competitive climate which should test the success of its restructuring earlier in the decade.

In the early 1980s the EC textile industry – like so many other areas of manufacturing – was burdened by over-manning, outdated machinery and surplus capacity. Its restructuring in the mid-1980s was designed to address these problems.

A glance at the indices of production for the European Community countries indicates the extent of the restructuring. The textile production index fell from 100 in 1980 to 98 in 1987. The clothing index slumped from 100 to 89 in the same period. Moreover, the EC textile workforce fell by a quarter between 1980 and 1987.

Yet the depth of the decline fluctuates from country to country. The West German industry, with its modern production plants and formidably efficient outward processing facilities, remained relatively resilient. Similarly, the Italian industry, which combines heavy investment in technology with an indigenous flair for design, flourished.

By contrast, the French and British industries, which were far weaker in the late 1970s, experienced more radical rationalisation. A stark illustration is that the index of textile production in France fell from 100 to 82 between 1980 and 1986, at a time when it rose from 100 to 104 in Italy.

Despite the decline, the EC industry emerged with more efficient plants and modern machinery, having shed much of its excess capacity. Advances in textile technology gave the Europeans an opportunity to erode the cost advantage of South-East Asia by reducing the labour intensity of the production process and offering a faster, more flexible service.

The giant Italian textile groups, led by Gruppo Finanziaria Tessile and Marzotto, countered the static state of the European Community market by forging ahead in other countries. The West German clothing companies, Steilmann and Hugo Boss, gathered momentum too.

When Prouvost took over most of Boussac Saint-Frères' textile activities from Financière Agache last summer, it completed the restructuring of the French industry. Only a few weeks before Chargeurs had resolved its wrangling with Prouvost by buying its wool textile operations. Chargeurs – like DMC, the third force in French textiles – turned its attention to international expansion.

The British industry was reshaped by a wave of corporate activity in which Coats Viyella emerged as Europe's biggest textile group from the merger of Coats Patons and Vantona Viyella. And Courtaulds, the bastion of the industry, was restored to recovery after its collapse in the early 1980s.

The textile industries of the "younger" EC member states – Spain, Portugal and Greece – have also expanded.

But the European industry has now entered a more competitive climate. The Italians and West Germans have experienced difficulties on the export front, especially in North America. Both GFT and Marzotto have been forced to sacrifice margins in order to maintain sales.

The French and British industries have found it much more difficult to maintain momentum. There have been cuts and closures in both countries. Coats Viyella reduced its workforce by 4,000, or 5 per cent, in 1988.

The critical question for the EC industry is whether the present problems are simply an acceleration of long-term pressures, or whether they herald a new era of radical restructuring and rationalisation.

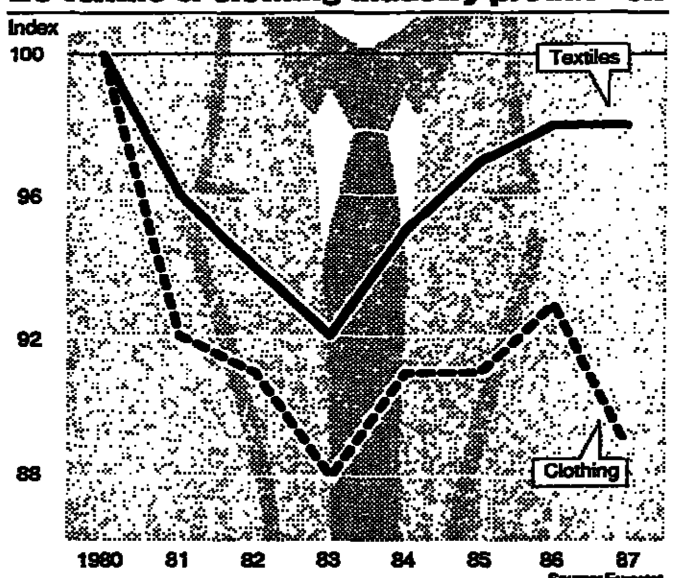
In the short term the industry's prospects will be determined by the progress of the US dollar on the foreign exchange markets. However, there is no sign that the long-term pressure from imports will lessen. As the Europeans are well aware, as soon as rising labour costs curb the competitiveness of Hong Kong and South Korea, new sources of production, such as China and Turkey, will take their place.

The industry also faces changes in the balance of the world textile trade. The introduction of EC-wide quotas after 1992 should make it even easier for imports to enter the Community. At the same time, the abolition of border controls should stimulate competition within Europe.

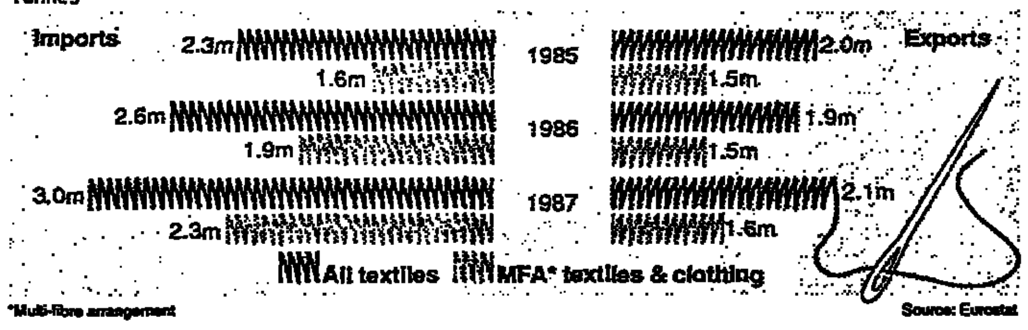
But the challenge of 1992 pales in comparison with the darkest cloud hovering over the European industry: the future of the Multi-Fibre Arrangement – the agreement regulating the world trade in textiles – after its expiry in 1991.

No-one knows exactly what form the MFA will take after 1991. Whatever the outcome, there is no sign that the international pressure on the European Community's textile companies will ever abate.

EC textile & clothing industry production



Textiles and clothing from outside EC



Jim Bodgener looks at the constraints on a country's export drive

Quotas that hold back Turkey

TEXTILES LOOK set to be one of the main engines of Turkish industry and cash crop agriculture way into the future. But at a time when Turkey's EC full membership application is being considered in Brussels, friction still pervades EC-Turkish relations from the brake of EC import quotas on the Turkish industry's further expansion.

The country is one of the world's leading textiles raw materials sources, in 1987 ranked as the seventh largest cotton producer, accounting for 542,000 tonnes of the total 17.5m tonnes global output. For the same year it was the eighth largest producer of wool – 65,000 tonnes out of a total world production of 3m tonnes.

Textiles have led the export drive which has enabled Turkey to keep abreast of heavy external debt servicing requirements throughout the 1980s. Between 1985 and 1987, textile exports rose in value by 51 per cent to total $2.7bn. Over the same period, the share of textiles in exports increased to 26.6 per cent from 22.4 per cent.

In 1988, textiles continued to grow faster than other exports, bucking an overall fall-off in sales growth due to phased out tax rebate incentives to comply with Turkey's Gatt subsidy code obligations, and an official credit squeeze on the Iraq market. Whereas exports overall rose by 13 per cent in the first 11 months of 1988 compared with the same period of 1987, textiles increased by 17 per cent to $2.8bn to take a 28 per cent share of overall exports.

In 1989, Turkish textile exports are expected to go on rising – in two years' time, annual overseas sales will total $5bn, predicts Mr Halit Narin, president of the Turkish Textile Employers' Association.

The pressure to export is all the greater because of the contraction of domestic demand due to the Government's austerity measures, forcing manufacturers to find external markets for more of their surplus. However, the reliance on exports is a structural imbalance – if overseas markets seriously diminished, the domestic industry might collapse.

Yet Turkish industry now has to compete with modernised European factories, which at one time it had overtaken. Now re-investment in capital-intensive machinery in once dominant textile countries like the UK, the US and Japan has restored their competitive edge.

Largely because of this, Turkey's traditional products of grey and plain cloths, and cotton yarn, are giving way to apparel with higher value-added content. Turkish manufacturers are also going for quality, seeing this as the only way to compete in western markets against cheaper goods from Asia and the Far East.

EXPORTS OF SELECTED PRODUCTS

	1985 (Figures in $m)	1986	1987	% change 1987/86
Man-made fibres	410.1	356.2	436.7	22.6
Cotton yarn	252.7	278.8	340.5	22.1
Cotton fabrics	109.1	110.8	99.4*	-10.3*
Clothing	800.3	921.0	1,543.8	67.6
Carpets	85.9	83.0	121.1	45.9

*Annualised estimate based on first six months of 1987
Source: Türkiye İş Bankası AŞ; Tekstil & Teknik

But in their main markets in Europe and North America, Turkish companies are still restricted by protectionist quotas. The Union of Textile and Apparel Exporters of Istanbul is broadly satisfied with the EC quota regime, re-negotiated every two years (although it is felt the Turkish Government could do more behind the scenes in Brussels). But there are still areas of serious disagreement – particularly over garments.

The worst European barriers were in pullovers and blouses, while the T-shirt quota was insufficient

The Turkish case against quotas in the US and Europe has not been helped by the fact that demand declined in both markets in 1988 for the first time that Turkish exporters can remember – about 2,000 of the total 22,000 tonnes EC quota for Turkish goods was not filled, for example. This year, however, both are expected to see a cyclical resurgence.

The worst European barriers last year were in the EC's categories 5 and 7, covering pullovers, other woven garments, and blouses. For category 5, pullovers, last year's quota was 170,000 pieces; this year, it has gone up by 20,000 pieces, but even this increase is considered insufficient. Category 7, blouses, increased by 8.6 per cent to 12,600 pieces this year. Demand was also very high for knitted items in category 4 such as T-shirts in 1988, so the quota was insufficient.

Vexing quota difficulties were also encountered for category 20, bed linen, whose producers account for much of the textile sector. Last year, Turkey exported 6,550 tonnes of bed linen – this year's quota is 7,775 tonnes, which Turkish companies will easily be able to fill.

"We will have serious problems in the second half of this year," predicts Mr Tuncer Ogun, the union's secretary-general. Towelling manufacturers, in category 9, also suffered, though not as severely.

Despite the quotas, clothing exports in January-November 1988 rose by 20.3 per cent compared with the first 11 months of 1987 to total $1.65bn. On the other hand, demand for cotton cloth was low overseas by comparison with earlier in the 1980s - cotton textile exports rose in value by only 2.3 per cent to total $109m in January-November, while cotton yarn fared worse, decreasing by 2.5 per cent to total $310m.

Exporters complain the quotas are a one-way street. Equipment bought to modernise factories more often than not comes from EC industrial plant makers. "We buy their equipment, but to survive, we have to sell the products from that equipment," points out Mr Ogun.

On the other hand, say EC officials, Turkey has yet to live up to the provisions regarding imports liberalisation of its association agreement – which some European governments say should be up and running smoothly before Turkey can even think of full membership.

Despite the liberalisation of customs tariffs, other levies and charges, some of recent provenance, remain, in the textile industry's case providing a protectionist wall as high as 80 per cent in parts.

The answer to the saturated apparel quotas for many manufacturers – apart from the many tricks of the trade like bypassing them through third countries – is to accentuate the value-added components of their products, by increasing the quality of both workmanship and fabrics.

That way even within the limits of the quotas, foreign exchange earnings can be maximised, says Mr Ogun. Value-added becomes even more important with expanding market footholds in the US and Canada, taking into account higher transportation costs and duties.

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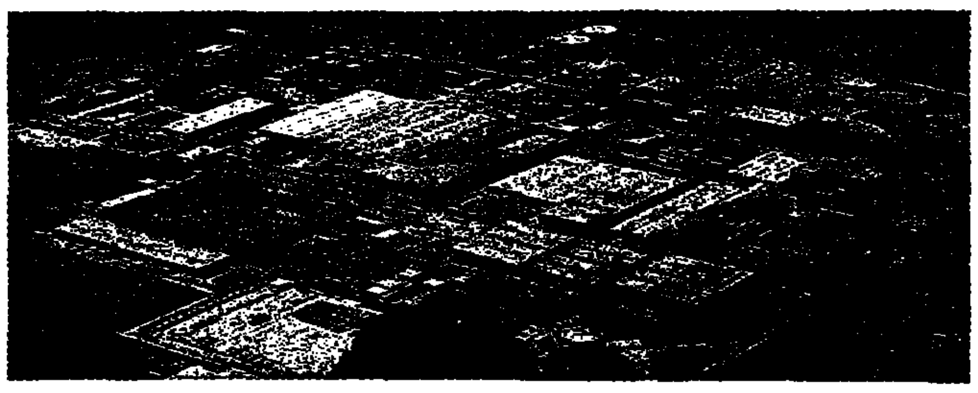


Alice Rawsthorn looks at how the face of the US industry has changed since the mid-1980s

Fall in dollar helps, but traditional weaknesses remain

ONE RAINY February day, Mr William Farley was taken on a guided tour of West Point, Georgia by the local mayor. At the end of the tour he espied a banner hanging outside the Valley National Bank: "Welcome to a New Beginning. Farley Town USA."

For Mr Farley the banner marked the end of a bitter battle to win control of West Point-Pepperell. The Chicago industrialist had emerged victorious as the owner of one of the world's biggest textile groups and the chief employer in West Point. He had also inherited a massive mountain of debt.

Mr Farley raised just $300m of the $3bn (£1.7bn) he paid for West Point-Pepperell from his own resources. The rest came from $1.2bn in bank debt and $1.6bn in Drexel Burnham Lambert junk bonds. Now that the deal is completed he must tackle the task of cutting costs and selling off subsidiaries at West Point to reduce the burden of debt.

The West Point takeover is only the latest – albeit the largest – in the long line of highly leveraged deals that has changed the face of the US textile and clothing industries since the mid-1980s.

The litany of bids and buy-outs – Levi Strauss, Blue Bell Holdings, J.P Stevens, Burlington, and West Point – reads like a list of the giants of the traditional US textile industry. These big deals have almost always been followed by a flurry of smaller disposals.

"The level of corporate activity has been quite phenomenal," says Mr Peter Harding of Kurt Salmon Associates, the international management consultancy in New York. "Only a handful of the groups that dominated the industry five years ago have been unaffected."

This frenzy of corporate activity has brought some benefits to the US industry. Mr Jay Meltzer, textile analyst with Goldman Sachs in New York, is convinced that it *played a critical role in galvanising* the giant groups into shedding surplus capacity, improving the calibre of management and casting a more critical eye over less competitive interests.

Yet he, like other observers, is concerned that the huge burden of borrowings built up by the bids and buy-outs, casts a cloud over the industry in the long term.

Textiles is still one of the largest areas of manufacturing industry in the US with a workforce of over 1.8m people. The textile sector is concentrated in its historic heartland of the southern states. Clothing is spread across the country: from the colossal plants in the Carolinas to the bustle of New York's Garment District.

Whereas the European industry experienced radical restructuring from the mid-1970s – after the oil price crisis – the US industry remained relatively resilient until the early 1980s. It was then that the US textile and clothing companies were forced to come to terms with the economic reality of a mature market and import competition.

The industry plunged into a period of painful rationalisation. Hundreds of plants closed and thousands of jobs disappeared. The industry has staged several political campaigns to lobby for the introduction of protectionist legislation to stave off the increase in imports. All the campaigns have failed.

In the last year or so the economic environment has been more favourable. Thanks to the decline of the dollar, the industry has become more cost-competitive against Hong Kong, South Korea, China and Taiwan. The US textile and clothing companies have also become more aggressive in exports: an area where, traditionally, they have performed poorly.

As a result, the textile sector saw its shipments increase by 2 per cent to $58.7bn last year, according to the American Textile Manufacturers Institute (ATMI) in Washington. The value of clothing and textile imports settled at $29.7bn, while exports rose by 25 per cent to $5.1bn. The textile and clothing trade deficit fell, albeit slightly, for the first *time in years*.

The industry's sceptics suggest that this improvement is chiefly due to cautious ordering by retailers – who were concerned about the impact of the stock market crash on consumer spending – in early 1988. As the year progressed, and consumer demand improved, retailers were forced to order at short notice. They turned to domestic suppliers for a faster, more flexible service.

Yet the industry was undoubtedly stronger in 1988. The weak dollar was an important factor, but the improvement also reflects the impact of the industry's investment in automation over recent years.

In the 1980s the US textile sector, like all the other international industries, has harnessed technological developments – such as shuttleless spinning and air-jet weaving – to erode the cost advantage enjoyed by its South-East Asian competitors.

The capital expenditure, in textiles alone, has run at $1.7bn during the decade. Last year it reached a record of $2bn. A recent ATMI analysis estimated that 40 per cent of US textile companies are now involved in some form of the quick response programmes pioneered by large groups like Milliken.

"The dollar has helped the industry considerably," says Mr Raoul Verret, president of Werner, the international management consultancy in New York. "Yet there is no doubt that the industry is genuinely more competitive."

But the burden of debt accrued by the bids and buy-outs threatens the industry's long-term stability. Ms Pamela Singleton, textile analyst at Merrill Lynch in New York, calculates that the ratio of debt to equity in US textiles is now *unhealthily high at 1:1. This* compares with 1:2 only five years ago.

The obvious cause for concern is that a deterioration in the US economy – an increase in interest rates or slowdown in consumer spending – could cripple some of the highly leveraged groups. *These companies would then be forced to* resort to emergency sales and enforced closures.

Even if this apocalyptic scenario is averted, the outlook is far from rosy. The industry's only hope in the long term is to improve its international competitiveness by investment in new technology.

Some US groups are involved in ambitious capital expenditure programmes. Springs Industries, for example, recently announced a $260m programme over the next two years. But the high level of borrowings means that many companies do not have the resources to invest. Many groups are already thought to have cut capital expenditure and R&D to service their debts.

This problem is aggravated by the fact that – even before the bids and buy-outs – the level of automation in the US textile industry was far lower than that in the more progressive textile centres like Italy and West Germany.

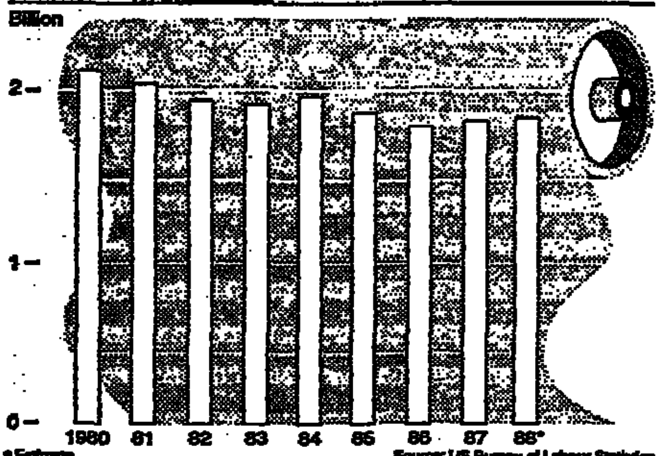
A recent analysis by Werner showed that 28 per cent of US weaving looms are less than 10 years old, compared with 49 per cent in West Germany and 45 per cent in Italy. The disparity in spinning is more marked. Only 6.5 per cent of spinning machinery in the US is under 10 years old, against 24 per cent in West Germany and 43 per cent in Italy.

The recent rash of cutbacks in the US means that, in two or three years' time, the US textile companies are likely to be even further behind.

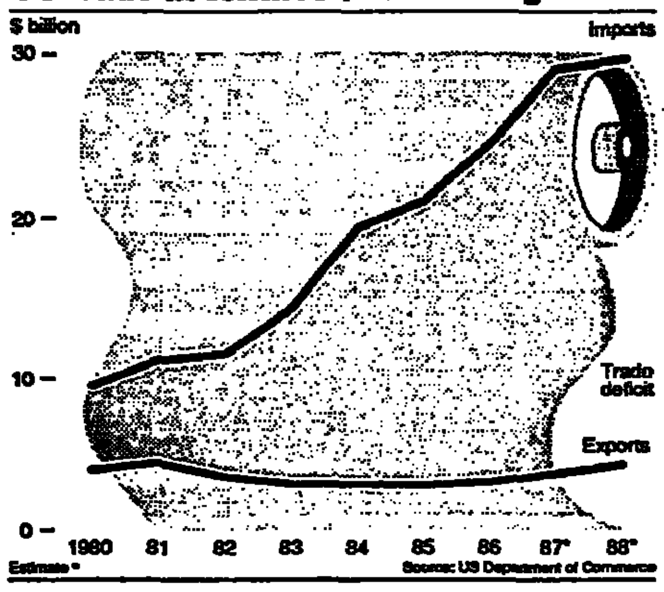
All in all, the US industry has barely begun the task of *regaining its lost competitiveness*. It will soon become clear whether it is capable of overcoming its traditional weaknesses – and today's burden of borrowings – to do so.

A deterioration in the US economy could cripple some of the highly leveraged groups. They would then be forced to resort to emergency sales or even closures

Employment in US textiles and clothing



US trade in textiles and clothing



The latest European commercial for Levi Strauss jeans (see also page 6)

Quotas holding back Turkey

Continued from previous page

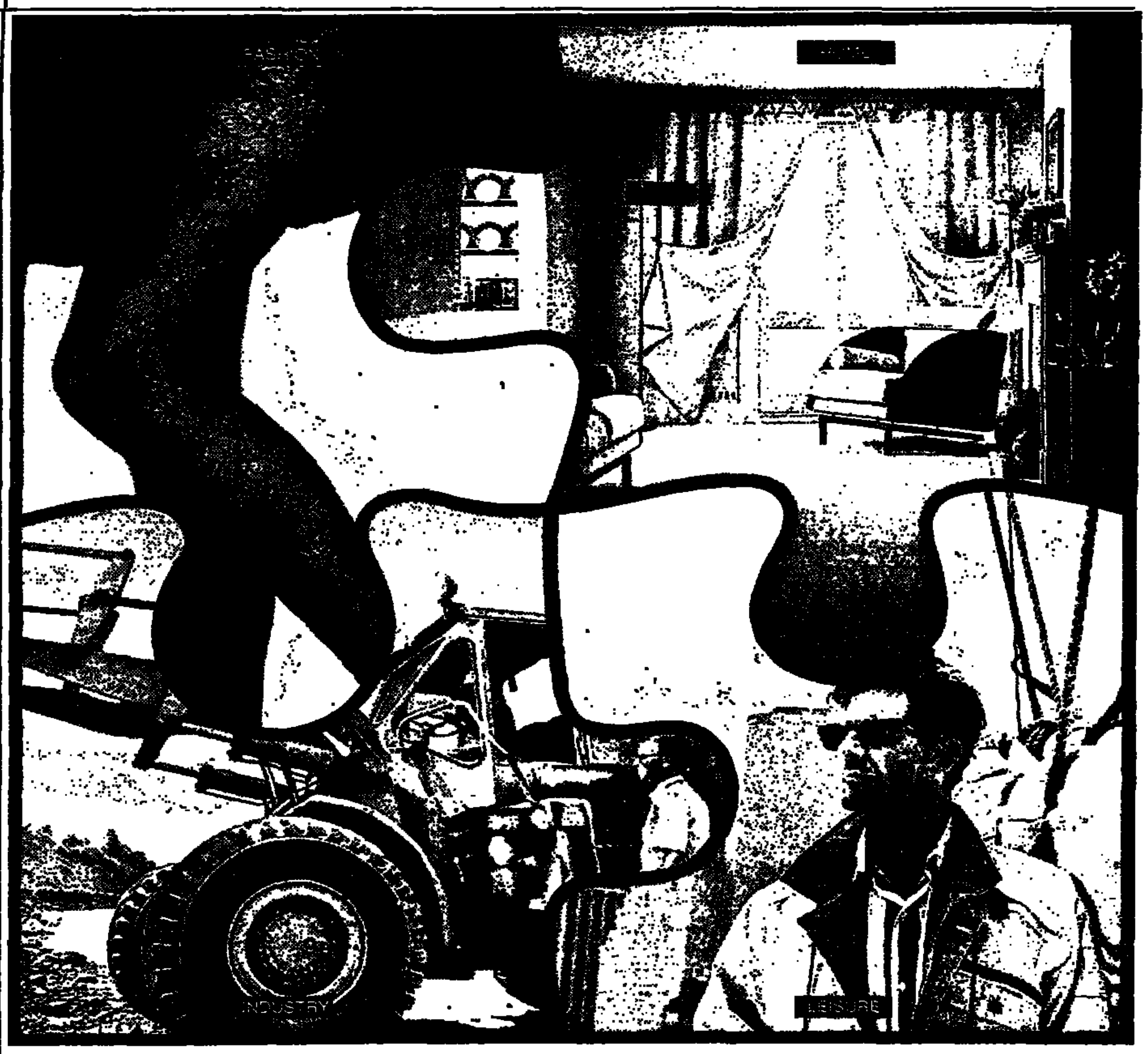
But raising quality requires investment in a high inflationary environment where borrowing costs to industry, though coming down, are still generally above 100 per cent.

Some manufacturers solve this by operating as much as possible in an export and therefore low interest, foreign exchange environment; others, with a large domestic market share, are less fortunate.

One avenue is through joint ventures with foreign companies, for infusions of fresh capital, and more modern technology, marketing and managerial systems – the latter was the guiding behind the purchase recently for $27.2m by France's DMC of a 50 per cent stake in *Turkey's largest garment producer*, Bozkurt Mensucat, a subsidiary of the giant Koc holding group.

At present, with an eye to a cheap labour manufacturing base on the doorstep of a Single Europe after 1992, foreign companies are sizing up Turkish textile firms. However, in the long run, the problem of EC quotas on Turkish textiles is bound to be a pitfall facing Turkey's full membership application, admits Mr Ogun.

An answer, he says, could be for the EC to increase its restrictions on other countries' imports, thereby making more room for the entry of the Turkish textile industry in Europe to strengthen EC output at the expense of Asian rivals.



A look at how three leading companies – Steilman of Germany, GFT of Italy and Dominion Textile of Canada – see the future

The own-brand king

WINNING THE first "Fashion Diamond" at this month's Igedo fashion fair in Düsseldorf may only have been a small token for Mr Klaus Steilman in his long career in the rag trade. But the award, broadcast live on West German TV, could not have better illustrated the increasing emergence of one of Europe's biggest, but least known, fashion names.

Biggest? While designers like Yves Saint Laurent or Giorgio Armani may be household names from Tonbridge to Turin, few have heard of Mr Steilman or his company, based in a nondescript industrial estate in a small town near the Ruhr city of Bochum.

Unfamiliarity has not prevented Mr Steilman, who went into business on his own almost 30 years ago after learning the trade at C&A, from becoming Europe's biggest ready-to-wear fashion producer and one of the largest entrepreneurs of his kind in the world.

The Steilman group's name is so little known outside professional fashion circles because so few of its dresses carry its label. Rather, they are to be found with own-brand tags on the shelves of many leading European retailers, ranging from Marks & Spencer – its biggest single customer – to C&A.

Together, such high-volume clients allowed Steilman to raise its turnover by 12 per cent to DM1.37bn in 1988, continuing a steady growth trend since its foundation. The workforce has risen to more than 7,800, while profits at the privately-owned company, which are not disclosed, are believed to have developed "satisfactorily." That usually means very well in Germany's restrained company-speak.

Despite the glowing figures, Steilman has been through a tough patch in the 1980s, when growth was under heavy pressure from cheaper South-East Asian imports benefiting from much lower production costs than in high-wage Germany.

Greater overseas sourcing was one of the group's responses to the challenge. Some 30 per cent of last year's sales derived from items contracted out to Asian producers, against 49 per cent made by Steilman itself in Germany, 10 per cent by German sub-contractors and the remaining 11 per cent manufactured by companies in other European Community countries.

Klaus Steilman

Intense sensitivity to market trends and the use of fashionable new materials before Asian competitors were other aspects of Steilman's strategy. Mr Steilman has always emphasised that European producers have one major advantage over their low-cost Asian rivals: they are much closer to their customers, which means that they can react more quickly to new fashion trends. That may often compensate for their higher costs.

But he remains far from sanguine about the threat of competition. Although his criticism of store chains for buying cheap imports has diminished of late, he has noted that "the pressure of cheap Asian imports affected price levels on all Europe's fashion markets as never before" last year.

"As more and more retail organisations do their own importing from the Far East, so the only option for European manufacturers is to move towards more advanced and faster production, more imaginative design and much less talk about their ideas before releasing them to the market," argues Mr Steilman.

A calculated move up-market has also been part of the formula. Mr Steilman's target has not been Bond Street or the Rue due Faubourg St Honoré, but the "bridge" market between famous French and Italian designers and middle-market tastes.

The initiative started in the mid-80s, with the "KS: Klaus Steilman Selection" range. That was followed by "KL by Karl Lagerfeld", a dearer collection reflecting the first fruits of his much-publicised collaboration with the Paris-based but German-born designer.

In January the first financial fruits of that link became clearer. Steilman Fashion Marketing, a subsidiary set up early last year to sell the Lagerfeld range to selected stores, announced sales of DM17.2m in its first six months. The results were "excellent," Mr Steilman proclaimed.

However, the group has set itself tough targets. Mr Steilman has always portrayed himself as an industrialist rather than a dizzy-headed fashion designer. Thus all his new ventures, including the latest, a collection designed for larger women, will have to perform adequately to survive. The Lagerfeld range is expected to produce minimum sales of DM50m after two years, rising to DM100m after four years. With an enthusiastic response in the shops so far, the outlook looks good.

What of the future for Steilman? Acute stress on marketing, especially in terms of keeping constantly abreast of market trends, will remain a top priority. "As manufacturers we need to work very closely with the customers, to give them lots of different options," he says. However, that is more than just a matter of convenience. With Asian competition ever present, it is the group's motto for survival.

Raising the profile of the fashion business in Germany remains one of Mr Steilman's pet interests. The country cannot afford to lose its best designers to prestige houses in France or Italy, he argues. Nor have the authorities helped. "German governments have never had any interest in the textile or clothing industry," he complains. The situation is particularly disappointing in view of the industry's substantial contribution to the country's export earnings.

Before the Second World War, Berlin was the country's acknowledged centre fashion centre. Today, Düsseldorf, Munich and even money-minded Frankfurt vie for that accolade. None is a clear winner, however. Changing that is one of the projects closest to Mr Steilman's heart at present.

Haig Simonian
Frankfurt

Group behind the fashion glitter

GFT – *Gruppo Finanziario Tessile* – is not a fashion name which springs readily to mind, not even at home to the most clothes-conscious Italians. Yet the Turin group is probably the principal member of a manufacturing and marketing system which has given Italy a leading worldwide position for mid- and up-market ready-to-wear clothing.

Unknown outside the clothing business, GFT lies behind some of the best-known household names in the glittering world of fashion. The group has production and distribution agreements with top designers on both sides of the Alps – Giorgio Armani, Chiara Boni and Valentino from Italy and Pierre Cardin and Christian Dior from France. Among the other leading designers working with GFT are Louis Feraud and Massimo Osti.

In the US, GFT owns Giorgio Armani Fashion Corp, holds an 80 per cent stake in Ungaro Inc and has 50 per cent shareholdings in two Valentino companies. GFT's Italian subsidiaries and affiliates include a limited company Chiara Boni Srl, in which it has an 85 per cent stake, and Marem, a 50-50 joint venture with Emanuel Ungaro.

Marco Rivetti, GFT's 46-year-old chairman and managing director, notes that there is no fixed model for his group's relations with the creative forces which shape its fashion output. Joint ventures have been established with some designers, while licensing provides the basis of arrangements with others.

Do agreements with so many designers lead to conflicts of interest? Mr Rivetti believes not. "The styles and products are created for well-differentiated publics. Because they are clearly separated it is not difficult to manage the different collections," he says.

Mr Rivetti points to the need to satisfy specific market segments, a strategy which GFT is reinforcing through increasing internationalisation. "In the US we have launched new collections by American designers. It is important to be considered a local operator and not be seen only as an importer. We must offer a US product in the US," he says. Andrew Fezza, Joan and David Helpern and Joseph Abboud are GFT's US designers.

In West Germany, which Mr Rivetti considers a priority market, GFT has an agreement with Michael and Mirella Kramer to develop, manufacture and distribute their designs. The Turin group has established a marketing company, Figures Modebekleidung, with the Kramers, who are ranked as West Germany's fashion leaders.

Conditions in West Germany are interesting because of the volume and quality of demand. But, in addition, GFT has noticed that large West German clothing manufacturers have raised their overall competitiveness over recent years, matching mass production with increased attention to design and quality. GFT will therefore probably take Germanisation further by acquiring manufacturing facilities in the country.

Gruppo Finanziario Tessile (in Lire bn)

	1983	1984	1985	1986	1987
Sales	577	710	848	900	990
Net profit	19	25	32	40	36
Working capital	141	148	171	200	209
Capital invested	182	205	238	263	284
Net stockholders' equity	66	91	110	137	179
Investment during year	9	18	22	26	26
Cash flow	34	41	48	56	57

Source: GFT

Mr Rivetti emphasises the importance of obtaining the best balance between design, quality and price. Improvements which West German industry has achieved, coupled to national creative talent, have led GFT to decide that this balance can be obtained by being present locally in both manufacturing and design.

GFT has been producing in Mexico since the early 1950s, but manufacturing abroad has only recently become an important part of strategy. GFT's acquisition of Riverside Manufacturing at New Bedford in Massachusetts was undertaken in 1987. Though this transatlantic operation is partly a response to the requirement to get closer to the North American market, the acquisition of Riverside Manufacturing is also a defensive currency hedge.

Manufacturing abroad has only recently become an important part of strategy

Exporting Italian manufactures against a weak dollar has been a major problem for the group, which last year generated 26 per cent of its L1,200bn sales in the US and Canada. "Producing locally helps protect the profit and loss account against the backlash of adverse exchange rate variations," remarks Mr Rivetti.

With this protection GFT was able to hold 1988's profits at the 1987 level of L36bn. But as Mr Rivetti notes, sales were considerably lower in 1987 at L990bn. "Last year's performance in percentage terms showed a decline," he admits. This was the second fall in successive years as the group's results were already showing the negative effects of the weak dollar in 1987. In its efforts to maintain transatlantic volumes and market share, GFT had reduced its margins and profits were down on 1986, in spite of a 16 per cent increase in sales.

Mr Rivetti is, however, optimistic that results will be better this year. "There will be improvements in performance from our operations in dollar markets. In addition, we will start to see a pay-off from the investment made in information systems and corporate organisation," he forecasts.

Internationalisation will continue. This should lead to a further reduction in the percentage of total sales which the group makes in Italy (51 per cent last year). GFT's chairman points to Spain and Russia as being priority markets, together with West Germany. So sales to the EC (14 per cent of the total in 1988) and countries other than North America and Mexico (6 per cent) should rise.

The foundations of GFT, controlled by the Rivetti family since 1925, were laid in a fabric wholesaling and ready-to-wear clothing manufacturing operation in the Piedmont textile town of Biella about 100 years ago. The tradition of clothing manufacture rather than textile-making continues. The group of 37 companies now employs 8,200 workers, making clothes at 13 Italian production units, located in and around Turin, and five elsewhere in the world, including one in China.

From the mid-range clothing which it produced in the 1950s and 1960s, GFT has moved into the distinctive, up-market designer ready-to-wear clothes which appeal to today's sophisticated consumers. The trend will continue, with GFT emphasising the combination of small enterprises operating with the technology of mass production. "This is the way to deal with the threat from low labour cost countries," asserts Mr Rivetti.

David Lane
Rome

A multinational strategy suits a more liberalised environment

DOMINION TEXTILE, the venerable Montreal-based textiles manufacturer, has spent much of the past 25 years realigning its operations to compete in a more liberalised global trading environment.

At the same time, it has lobbied strongly to slow the pace at which trade barriers regulating the flow of cheap Third World textiles into Canada and other industrialised countries are removed.

In the process, a company which as recently as 1974 was solely Canadian-based, shipping just 7-8 per cent of sales to export, is beginning to emerge as a multinational player of some standing in the industry. In the current fiscal year, for the first time, Canada will generate less than 50 per cent of its overall revenues.

The group's strategy is to concentrate increasingly on selected product areas where it can compete without the benefit of trade restrictions, while beating a gradual retreat from businesses which depend on tariff barriers for their survival.

In the last fiscal year, for example, the assets of the Dominion Fashion Group were sold once it was decided that the manufacturing and marketing of garments in Canada was "not an area of continuing interest for the corporation."

Similarly, the group in February announced a restructuring of its Quebec lightweight apparel fabric operations, which will result in 425 lay-offs and the conversion of one plant to yarn-spinning. The restructuring was partly triggered by a government-sponsored duty remission programme which will enable Canadian clothing manufacturers to import certain foreign-made fabrics more cheaply.

The group is beating a retreat from business that is dependent on trade barriers

Further moves are likely after Mr Charles Hantho, Dominion's recently-appointed president and chief operating officer, has completed his initial assessment of the company's position. The stagnant consumer products division, which closed two plants in fiscal 1988, is one area ripe for further attention, observers say.

The sectors upon which Canada's largest primary textiles maker appears to have chosen to stake its future are denim fabrics (which accounted for 26 per cent of sales in the last fiscal year), yarns, workwear fabrics, various industrial products ranging from tyre cord to carpet-backing, and interlinings. An uncharacteristically bold spate of four acquisitions in seven months between November 1987 and June 1988 considerably strengthened Dominion's hand in a number of these areas.

The spending spree began inauspiciously with a failed takeover bid. In June 1987, Dominion abandoned its ambitious attempt – undertaken with Mr Asher Edelman, the New York investor – to acquire North Carolina-based Burlington Industries, the largest textiles manufacturer in the US.

Within months, however, debt forced the management group that had ultimately bought Burlington to put a selection of assets on the market. When this happened, Dominion was on hand to pay US$208m for Erwin Mills, Burlington's largest denim-making unit. The purchase transformed Dominion into the world's leading denim manufacturer.

Seven months later, Dominion paid US$90m for Burlington's Klopman European workwear, leisurewear and nylon yarn businesses. The deal was consistent with the company's ambition of bolstering its presence on the Continent ahead of 1992 and made it Europe's largest manufacturer of polyester/cotton workwear.

In the interim, Dominion had become the largest US producer of carpet-backing with the US$136m acquisition of Wayn-Tex from Waynesboro Textiles. The buying binge was rounded off with the purchase of a majority stake in Nordlys, the French non-woven fabric manufacturer. Nordlys gives the group a new product source for its fast-growing European interlining business.

One unwelcome consequence of this rapid expansion has been a near-quadrupling of Dominion's long-term debt load from C$128.2m at the end of fiscal 1987 to C$495.9m a year later. This was supported by shareholders' equity of C$568m.

Most of this debt has been negotiated at fixed interest rates in order to protect the company from unfavourable market fluctuations. The group has set itself a near-term target of reducing to 40:60 its total debt:equity ratio from 54:46 at the end of the last fiscal year.

Its task has not been made any easier by the soft market conditions which have prevailed during the first half of fiscal 1989. These scythed earnings for the six months ended December 31 to a negligible C$200,000 from C$42.2m (including a C$30m extraordinary gain) in the corresponding year-earlier period. Sales rose by 24 per cent to C$654.5m because of the contributions from newly-acquired businesses. Softness was particularly pronounced in the US denim sector.

An unwelcome consequence has been nearly to quadruple debt

At the end of fiscal 1988, the company employed 14,000 people in 41 manufacturing plants in North America, Europe, Tunisia, Hong Kong and Brazil. Fiscal 1988 sales totalled C$1.2 bn, comprising C$310m denim fabric, C$232m industrial products, C$232m yarns, C$171m consumer products, C$150m apparel fabrics and C$113m interlinings.

David Owen
Toronto

Flectalon, a quilted, insulated fabric, is manufactured at a factory in South Wales. Developed by the University of Wales Industry Centre, the material provides an inexpensive alternative to the more traditional duckdown

In cool wool, you can allow your temperature to rise a little — or so says the ad

Whether it's wool or cotton or silk, there's ...

A natural fibres trend

THE GROWING trend towards environmentalism in the 1980s has encouraged buoyant demand for natural fibres.

Demand for wool last year led to record prices in Australia, where the fleeces from 160m sheep provide the country, the world's biggest exporter, with its biggest export earner — A$6bn in 1987-88. The Australian Wool Corporation's market indicator price peaked at 1,269 cents a kilogram (clean) in April last year. Demand was such that despite an increase in production, the AWC's reserve price stockpile of 360,000 bales (170kg each) was eliminated by the end of the season in June.

Prices have fluctuated since, but are still substantially ahead of what they were 18 months ago, according to Mr Graham Lister of the International Wool Secretariat in London. "The outlook between now and September is that prices will be at least maintained, with demand still pretty solid and pretty widespread," he says.

The wool growers have now, after many bleak years, enjoyed a couple of very good seasons, says Mr Lister, and they are determined not to lose ground. Profits are being reinvested in farms and stock, and a lot more effort is being put into promotion.

Last month the IWS, which is sponsored by the sheep farmers of the southern hemisphere, launched its first pan-European advertising campaign as part of its strategy to prevent buyers from switching away from wool as the raw material price rises filter through to the shops. Past experience has shown that it takes a long time for consumers to switch back to wool from less expensive fibres.

While wool can never compete with synthetic fibres in terms of price, growers can try to match the regularity of supply and predictable performance of the synthetics.

"The future for wool is for growers to produce a reliable supply of well-grown, well-specified and well-described wool so that users can buy it with a high level of expectation as to how it will perform," says Mr Lister.

In the long-term the IWS is looking to the huge potential of the markets in the Soviet Union and China, where it has agreements to work with the authorities to improve the quality and efficiency of production.

Cotton prices have remained relatively high so far this season in spite of the fact that production, at 84m bales, is set to exceed consumption, at 81.5m bales, for the second consecutive year.

"Usually you would see prices going down a bit, but not this season, mainly because of the lack of information about China," says Mr David Morris, director of economic and market research at the International Institute for Cotton in Brussels.

Rumours of a Chinese purchase on the world market were enough to shift New York futures prices in January above 60 cents a lb for the first time since July last year. Since peaking in 1984 at 6.26m tonnes, Chinese cotton production has fallen to 4.1m tonnes last year. This year's crop forecasts are already below last year's, and the country needs about 5m tonnes a year to feed its textile industry.

Even in good times, basic chemical fibres sell at low prices

Other cotton producers are likely to maintain their output next season, according to Mr Morris, with the exception of the US, the biggest producer, which could be down through the US Department of Agriculture's acreage reduction programme. He estimates that total output could fall by 1m bags.

Cotton consumption has risen dramatically in the 1980s on the back of the trend towards natural fibres. In 1987 Western Europe and Japan consumed 3.5m tonnes (16m bales), equivalent to 44 per cent of their total fibre market, says Mr Morris. Comparable figures for 1980 were 2.6m tonnes, equivalent to 36 per cent.

In real terms cotton is becoming steadily cheaper, and its position as an annual crop grown in both the northern and southern hemispheres tends to keep sharp price fluctuations within a single season.

Consequently, cotton production has risen consistently since the Second World War. Consumption has risen sharply since the mid-1960s — "I don't think there have been two years in a row when consumption has fallen," says Mr Morris.

Luxury fibres are also benefiting from increased demand as Western consumers become more willing to pay the high prices they command. As with cotton, it is developments in China which have dominated the trade in raw silk and cashmere.

The price of raw silk from China, which produces 90 per cent of world exports, has risen from $30 to $48 a kilo over the past year, while silk bought through a Hong Kong dealer fetches $60 a kilo, according to Mr Ronald Curry, secretary general of the Lyons-based International Silk Association. The rise has followed the liberalisation of the Chinese economy, which has led producers to sell to outlets in Hong Kong rather than to the central authorities.

However, the problem is not the level of prices, which in real terms is about the same as they were 15 years ago, but the speed of the rise, according to Mr Curry. In addition, the Chinese are aiming to export less raw silk in favour of more finished articles.

While final demand in Europe is very strong, the industry is holding back on production because of the uncertainty of obtaining its raw materials. China has made no new offers of raw silk this year as it is still catching up on its 1988 commitments.

"The situation should be far clearer after the Canton Fair next month," Mr Curry believes.

China is also the leading world exporter of cashmere, with 60 per cent of the clip. Prices have risen about 50 per cent over the past year to £45 a kilo, according to Mr Ronald Miller of Dawson International, the big Scottish processor.

The wool is taken from goats herded by as many as 100,000 peasant farmers in China, and as with silk, they are now selling their product to the highest bidder. The high price of cashmere products is better understood in the light of the fact that it takes the annual clip from three goats to make one sweater.

But the interest from the fashion industry in this rarest of natural fibres is strong, says Mr Curry, and the outlook is very good.

David Blackwell

Though prospects for synthetic fibres may not be that good...

The future is not all bleak

THE ACTIVITIES of the world's chemicals industry in making synthetic fibres are tightly interwoven into the affairs of the textiles sector.

Virtually every large chemicals company makes either finished synthetic fibres — of which the main types are nylon (aramid), acrylic and polyester — or materials which are used in their manufacture.

Total annual output of these materials, for which the biggest customers are clothing makers and other more specialist segments of the textiles industry such as producers of carpets and industrial fabrics, adds up to about 18m tonnes, worth an estimated $35bn.

Many of the world's biggest chemicals groups are heavily involved in fibres. They include Italy's Enimont; Britain's Imperial Chemical Industries; West Germany's Bayer, BASF and Hoechst; Du Pont, Monsanto and Allied-Signal of the US; Akzo of Holland and France's Rhône-Poulenc.

All is, however, far from rosy in the world of fibres makers. Many of the big chemicals groups in this area have in recent years been trying to reduce their dependence on the sector.

One reason for the general nervousness is that demand for fibres by their chief customers in garment manufacturing depends to a large degree on factors which are out of the chemicals producers' control.

These include the state of the world economy, fashion trends and the price of competing natural fibres like wool and cotton.

The amalgamation of difficult factors regulating purchases of fibres explains why demand has bobbed up and down like a yo-yo in the past 20 years.

Since the end of 1987 fibre demand in most western economies has been fairly good — although the position for polyester and nylon has been rather better than for acrylics, some makers of which have struggled recently.

However, even when the industry is experiencing good times, basic chemical fibres sell mainly at low prices and at margins which are not particularly appealing.

As a result of this, many in the fibre production business — particularly the bigger groups which have plenty of other areas of synthetic materials in which to invest — have tended to write off fibres as an area that is unlikely to have good growth prospects over the next 10 years.

That at least partly explains the capacity reductions which have taken place among many fibre makers in the US and Western Europe over the past few years.

However, before coming away with an altogether bleak view of prospects in the fibres sector, there are three important points to consider.

The first concerns the role of the developing world.

For producers which have low costs and do not mind relatively poor margins, the high sales volumes normally associated with fibres can be highly attractive. This explains why a large number of nations outside the major industrial countries and with low labour costs have plunge into fibre manufacturing in a big way in recent years. Those in the forefront include Brazil, Taiwan, South Korea, Taiwan, Turkey and China.

For nations in this category a drive in fibre production has been one way to ease themselves into the technically demanding chemicals industry, at the same time boosting their local textiles businesses by providing plentiful supplies of raw material.

Another result of this trend over the past decade has been that the low-cost countries in fibre-making have exported their surplus fibres, often at very low prices, to the richer nations in Western Europe and North America.

The impact of the cheap imports, which in many cases have driven deeply into the market shares of the established Western fibres producers, has been another factor causing them to be less than enthusiastic about future prospects in the industry.

The growth of the less developed nations in synthetic fibres has been remarkable. At the turn of the 1970s they were responsible for annual production in this area of less than 3m tonnes, slightly below the output of both Western Europe and the US and rather more than that of Japan.

Since then, however, while the annual output of each of the three main industrial blocs has continued to hover around the 2m-3m tonnes mark, production from the other countries has shot up to some 10m tonnes a year, according to figures from Akzo.

The second issue of importance when considering the future of the fibre producers is the way in which many big Western companies have moved upmarket in recent years into new, high value applications of the materials.

This route can often be much more profitable than the traditional strategy in the fibre world of making mainly clothing-grade materials.

The companies which have followed this route have modified the properties of the basic fibre to lend these to specific aspects such as high strength or fire resistance. That can often make the products suitable for specialist, non-clothing applications, for instance in industrial textiles for use in items such as conveyor belts and in other technical areas like parachute chords and factory machinery.

Another possibility is to seek higher value niche application areas in the clothing area. Thus big nylon manufacturers — ICI, for instance — have tried in recent years to accent their activities more towards specialist grades of fibres, such as for ski wear.

Cotton is becoming steadily cheaper and production is rising

This route leads to more expensive fibres, with consequently higher profit margins. Standard chemical fibres made from polyester and used in cheap clothing might sell for $2,000 to $4,000 a tonne. Higher grades of the same substances can often fetch $15,000 a tonne or more.

In the mainstream fibres business, polyester and nylon generally led themselves better than acrylic to these higher value, technical applications. Many of the large makers of these materials — including Akzo, Hoechst and Du Pont in polyester and ICI and Rhône-Poulenc in nylon — are increasingly emphasising these grades of products as opposed to the traditional clothing-oriented types .

There are even higher prices and consequently higher margins for other types of fibre made from non-standard substances. Carbon fibre, for instance, which is woven into material for reinforcing plastics in industries like aerospace, normally sells for about $40,000 a tonne and some especially high-strength, high stiffness types of carbon fibre can sell for three times that price. Leading companies in the carbon fibre industry — which with total output of about 5,000 tonnes a year is minuscule by the standards of the rest of the fibres sector — include Toray and Toho of Japan, the US's Hercules, Courtaulds of Britain and BASF.

A similar kind of high-strength fibre with specialist structural applications is aramid fibre, a plastics-based substance made by Akzo and Du Pont for which the world market is about 17,000 tonnes a year, worth some $600m.

The third key point on the future for fibres, which can make the outlook seem more promising, at least for some companies, concerns the supply of raw material for basic fibres such as acrylic, nylon and polyester. Much of this consists of basic products of the chemicals industry which — providing demand is reasonable and a manufacturer employs efficient modern technology to keep costs low — can be sold for good prices and at a reasonable profit.

In practice, makers of the raw material often sell to other parts of their organisation. Thus Hoechst, the world's biggest maker of polyester fibre, is a large supplier of the dimethyl terephthalate used in the fibre's manufacture.

For a particular form of nylon called nylon-6, a phenol-derived chemical called caprolactam is an important starting material. The relatively few big makers of the substance such as Holland's DSM, Enimont of Italy, BASF, Bayer and Allied-Signal, have gained useful earnings from this source over the past few years, thanks largely to the growth in demand of nylon-6.

For acrylic fibre, the main precursor is acrylonitrile, an ammonia-based chemical. British Petroleum, the world's biggest acrylonitrile producer, has been successful in remaining a merchant supplier of this material. Rather than use the chemical itself, the company sells on the material to big acrylics producers such as Monsanto, Du Pont, Bayer, Courtaulds and Akzo.

Peter Marsh

Asia's producers are carving up different areas

Three dragons make room for newcomers

THE SPECTACULAR economic growth of Hong Kong, Taiwan and South Korea – Asia's Newly Industrialising Economies – owes a great deal to their textile and garment industries. So it is no surprise that a new generation of producers in such countries as China, Indonesia, Malaysia and the Philippines have emerged to challenge the big three in an attempt to emulate their success.

Though viewing the challenge seriously, Hong Kong, Taiwan and Korea are to some extent shielded from this competition, as market forces continue to take a back seat in the global textile trade, which is instead governed by the rigidities of the quota system under the Multi-Fibre Arrangement.

Instead of being locked in combat with one another, the two groups are carving up different areas of production between them, and are united in mutual concern over broader issues such as the rise of protectionist sentiment in the US and Europe, uncertainties over the direction of the US dollar, and the prospects of a global economic recession.

"We are not really competing head on with the newcomers," says Mr Kenneth Fang, managing director of Hong Kong's Fang Brothers Knitting. "We recognise that with their lower wages and adequate labour supply they will be a strong force in the low end of the mass market, but all those countries are severely limited by international textile agreements – so although they are booming they cannot grow too fast."

According to Mr Henry Tang, managing director of another large Hong Kong garment manufacturer, Peninsula Knitters, the other Asian countries are simply filling the void being left by Hong Kong, Taiwan and Korea on their journey upmarket.

Rising labour costs, and the quest to boost profits while working within the confines of volume restraints on exports to the European Community and the US, have continually pushed the big three in the direction of more expensive items, to the point where many expensive designer label clothes nowadays carry labels saying "Made in Hong Kong" or "Made in Taiwan."

This has allowed low cost producers, such as Malaysia, Thailand, the Philippines, Indonesia, and in recent years most notably China, to make inroads into the lower mass production end of the market, often helped by Hong Kong manufacturers bringing expertise and much needed investment to offshore locations in the search for extra quotas.

Hong Kong vies with Italy from year to year to top the world league table for garment exports measured by value, and in 1988 exported US$8.6bn worth of clothing. The territory has large quota holdings in natural fibres, while Taiwan, which also produces high quality goods, has more synthetic based production. In Korea the textile fabric industry is highly developed in addition to garment production.

The three Asian dragons are facing common problems, with their economic success leading to rising wages and higher production costs across the board. Taiwan and Korea have had to cope with the additional burden of the weak US dollar, after pressure from Washington over the past two years to allow their currencies to appreciate substantially.

Hong Kong has an advantage here, as the local dollar

Expensive clothes carry "Made in Hong Kong" designer labels

has been linked at 7.80 to the US dollar since 1983 and, despite occasional flurries of speculation, looks set to remain at this fixed rate for the foreseeable future. However it does face an acute labour shortage, and since country-of-origin regulations prohibit processing over the border in China, there is growing pressure for the import of labour into the territory.

But necessity is the mother of invention, and such problems have only proved to be an additional incentive to move upmarket.

"Had it not been for increased labour costs and bilateral trade agreements restricting Hong Kong's total exports, Hong Kong probably wouldn't be as upmarket as we are today," says Mr Tang.

"In a way we were forced upmarket because of those things. Hong Kong and Taiwan cannot make low-priced large production run goods as they did many years ago," he explains.

This is where the countries with cheaper labour get their chance. With the lowest production costs in Asia, China grew quickly to become the biggest exporter of textiles and apparel measured by volume to the US, before agreeing to a 3 per cent per year growth limit in 1987.

Indonesia's global textile exports registered a big increase in 1988 to well over $1bn, while despite its political problems the Philippines is currently attracting substantial investment and seeing a growth in its garment exports.

Chinese exports of textiles and clothing (in $m)

	1981	1982	1983	1984	1985	1986*
Textiles	3,079	2,921	3,333	3,093	3,243	4,200
Clothing	2,093	2,434	2,780	2,653	2,050	2,900
Textile fibres	498	552	606	929	1,145	1,100
TOTAL	5,670	5,907	6,719	6,675	6,438	8,200

*Economist Intelligence Unit estimate. Source: State Statistical Bureau

Malaysia, and most recently Thailand, have also been developing their garment manufacturing industries.

But according to Mr Tang these countries will not succeed in capturing the markets which currently belong to Hong Kong, Taiwan and Korea, such as designer name goods.

He points out that Hong Kong has taken many years to *learn how* to satisfy the quality requirements, short production runs and tight deadlines that are typical of more upmarket customers. But if all quotas were to disappear, the cheaper producers "would probably capture the entire lower priced market," he says.

Yet there is little sign of quota barriers coming down in either Europe or the United States. If anything, the reverse is true, and the prospect of a post-1992 Fortress Europe causes concern in the region, as do the perennial efforts of the American textiles lobby to push protectionist legislation through Congress.

President Bush has promised tough action on unfair trade

The thought of a post-1992 Fortress Europe causes concern

barriers, utilising the negotiating tools provided in the Omnibus Trade and Competitiveness Act passed late last year, and this has given rise to hopes that the trade spotlight will move away from fresh legislation, and concentrate instead upon using the new array of measures contained in the Act.

Asian producers have at the same time found allies in American consumer groups, which have mounted publicity campaigns in the US on the cost to consumers of cutting out cheap imports.

Sales to the US were weak last year, when the vagaries of fashion combined with poor Christmas sales in 1987 and a weak dollar to leave large unsold inventories, and made buyers reluctant to place new orders.

Things have looked up since the last quarter of 1988, but as always the future of the Asian garment manufacturer is clouded by uncertainties over a possible recession, the direction of the dollar and the overall trend in the US trade deficit.

But barring the total abolition of the MFA, which is expected to be renewed in 1991, quota restraints on volume will continue to have the effect of freezing market shares along existing lines, leaving the basic patterns of garment production within Asia intact, and Hong Kong, Taiwan and Korea in their places at the top of the export league table measured by value, while the lower cost producers strive to grow within their own quota limits.

Michael Marray
Hong Kong

Alice Rawsthorn looks at the problems of the jeans manufacturers

Denim giants are feeling the pinch

THE JEANS industry is in trouble again. After a few buoyant years in the mid-1980s the giant jeans groups face sluggish sales in many major markets. Once again the industry has been hit by job losses and factory closures.

Levi Strauss reduced its workforce by 1,600 in the US alone last year. Lee Cooper, the largest European manufacturer, is shrouded by bid speculation. Wrangler is still haunted by the ill-fated leveraged buy-out that drove it into the arms of the VF Corporation, the owner of Lee, one of its age-old adversaries.

Sluggish sales and takeover threats are the immediate problems for the industry. Yet it also faces the longer-term challenge of grappling with the increasingly fashion-conscious character of the jeans market and the demographic decline of the adolescent population, which has been its chief source of custom for decades.

The giant international groups that dominate the jeans market trace their origins to the 1870s and to a dingy dry goods store on the San Francisco waterfront. The store was run by Levi Strauss, a German Jewish *emigré* and the owner of a patent for a tough riveted trouser made from denim fabric that he had shipped over from Europe.

The riveted trousers soon became popular among the prospectors who were flooding through San Francisco *en route* to the Californian goldfields. By the early years of the 20th century denim jeans were worn by blue-collar workers across the US.

It was in the 1950s when – inspired by Marlon Brando and James Dean – the adolescents of North America adopted jeans as their unofficial uniform. In the next decade the US jeans manufacturers, led by Levi and Wrangler, turned their attention to Europe and Asia-Pacific.

The 1960s and 1970s were years of rapid growth for the industry. Factories were flung up and distribution deals sealed. But in the early 1980s the market suddenly slowed down. The teenagers of the 1980s associated denim jeans with their parents' long-lost youth, not with their own adolescence.

US MARKET SHARE

Levi Strauss	24%
Lee	14%
Wrangler	10%
Guess	3%
Others	49%
1987 total:	490m pairs

Source: Industry estimates

In the US the industry could at least depend on a solid base of workwear sales. Yet sales slipped from 500m pairs in 1981 to 430m in 1985. The decline in Europe was more dramatic. The market plummeted from 250m to 150m pairs in the same period.

The jeans giants were left with idle factories and rising stocks. Levi lost over 15,000 employees in a rationalisation programme which axed 30 plants in the US and 25 in other countries. Wrangler was also forced to turn to painful cuts and closures.

The outlook for the industry was so forbidding that both Levi and Wrangler returned to private ownership through leveraged buy-outs. Levi's buy-out was successful. Wrangler's was not. Blue Bell, its parent company, could not cope with the burden of debt. Two years ago it was taken over by the VF Corporation.

Levi's return to private ownership coincided with a dramatic change in its corporate culture. The company retreated from its peripheral activities to pursue a "core product strategy" whereby it concentrated on blue denim jeans.

The lynchpin of the strategy was the relaunch of the original *Levi 501s* in 1985. The authenticity of 501s, together with Levi's expensive and imaginative advertising, revitalised the entire market.

Thanks to 501s, jeans were fashionable again. In 1986 the market stabilised, then in 1987 it actually expanded. But the nature of the market had changed.

Traditionally jeans had been a standardised product which was unaffected by the ebbs and *flows of fashion*. Since the mid-1980s jeans have become far more fashionable. A sudden craze for marbly, or "acid-wash" jeans was one of the catalysts behind the surge in sales in 1987. Many of the major manufacturers were caught unawares by the craze. In its early days the "acid-wash" market was dominated by cheap jeans from South-East Asia.

But by last year "acidwash" was no longer in fashion in Europe and the smarter, urban areas of the US. Once again, the major manufacturers were caught unawares and lumbered with surplus stocks. The absence of a strong fashion trend – together with the sluggish state of US retailing – caused a slowdown in jeans sales during 1988.

The slowdown has, not surprisingly, created problems for the jeans giants. But it has also highlighted the structural changes within the market that augur ill for many of the established manufacturers.

In the days when jeans were a standardised product, manufacturers could rely on the economies of scale inherent in volume production to boost profitability. Many of the established manufacturers have found it difficult to adapt to a new trading environment where they are expected to be far faster in their response to changing trends.

It is instructive that, at a time when Wrangler and Lee Cooper have lost share in many markets, younger companies have been able to make significant inroads into both the US and Europe.

The new phenomenon in the US is Guess. The company was founded in 1981 when four brothers – the Marcianos – arrived in Los Angeles from Marseilles. Thanks to a combination of sharp designs and extravagant advertising, it now has a substantial share of sales in the US and is moving into Europe.

MARKET SHARE IN EUROPE

Levi Strauss	11%
Wrangler	3%
Lee	2%
Lee Cooper	2%
Pepe	2%
Others	80%
1987 total:	180m pairs

Source: Industry estimates

Pepe has emerged as the new force in the European market. Pepe is also the creation of a set of *emigré* brothers, the Shahs who came to the UK from Kenya. It began as a stall on a 1970s London street market and already claims the same share of European sales as Wrangler and Lee.

Guess and Pepe have both structured their companies as flexible operations to help them to react to sudden changes in trends. Pepe, for example, has no production plants of its own, but sub-contracts in South-East Asia.

Some of the established manufacturers have followed suit. Vivat, which owns Lee Cooper, is in the final throes of withdrawal from manufacturing in Europe in favour of sourcing from sub-contractors in South-East Asia and from its sole surviving factory in North Africa.

Wrangler has also rationalised its manufacturing facilities: partly in an attempt to cut costs and partly to try to adapt to the changing nature of the market.

Even the more successful companies, like Levi and Lee, have had to invest heavily in marketing and product development to keep abreast of new trends.

But the jeans giants are also bracing themselves for the demographic bombshell that awaits them in the 1990s. The decline of the teenage population in most of the developed economies bodes *ill for* an industry which relies on the under 25s as its major market.

Levi has responded by promoting 505s and 508s – jeans which are designed specially for those who can no longer squeeze into their 501s – in the US. Whether a slightly grizzled man, spending a quiet day *fishing in a comfy pair of* jeans, will prove as appealing as the raunchy imagery and blues music of the 501s commercials remains to be seen.

HIGH FASHION

Big money moves in

THE TRADITIONAL image of a fashion designer is of a *prima donna* tripping along the catwalk to tumultuous applause, or of an *haute couturier* painstakingly pinning a hem in his tiny Paris *atelier*.

In the 1980s those images have been swept aside with a vengeance. Today's fashion designers are the architects of billion dollar business empires with a labyrinthine web of licensing and distribution deals. The emergence of these fashion empires has tempted a new generation of industrialists and financiers to venture into the frivolous world of high fashion.

Carlo de Benedetti, the *dynamic Italian industrialist*, is now a sizeable shareholder in Yves St Laurent, one of the leading Paris designers, through Cérus, his French holding company. Christian Dior and Christian Lacroix, two of the most influential Paris houses, are part of Agache, the industrial group headed by Bernard Arnault, one of the brightest young French businessmen.

A few months ago Midland Bank, the British clearing bank, became the latest – if least probable – recruit to the ranks of the fashion investors by buying a substantial stake in Lanvin, the old-established Paris house.

These new investors regard high fashion in exactly the same way as they would any other form of investment. Yet it is only in recent years that the fashion designers have become sufficiently profitable to attract the attention of hard-nosed industrialists like de Benedetti and Arnault.

High fashion has flourished in the 1980s. The rapid rise of disposable incomes in the major economies – *combined* with the cultural phenomenon of conspicuous consumption – has ensured that there are more people who are able and willing to treat themselves to expensive designer clothing.

This boom in *demand* has been accompanied by the development of licensing as an increasingly lucrative source of income for the fashion houses. Once the designers depended on their catwalk collections to *earn a living. Today they make* most of their money from licensing agreements for the sunglasses or scents that bear their name.

Licensing has not sprung up overnight. Christian Dior *signed its first licence – for* men's ties in the US – as long ago as 1948. Yet the global market for luxury goods has exploded in the 1980s. The successful designers now license hundreds of products in dozens of countries.

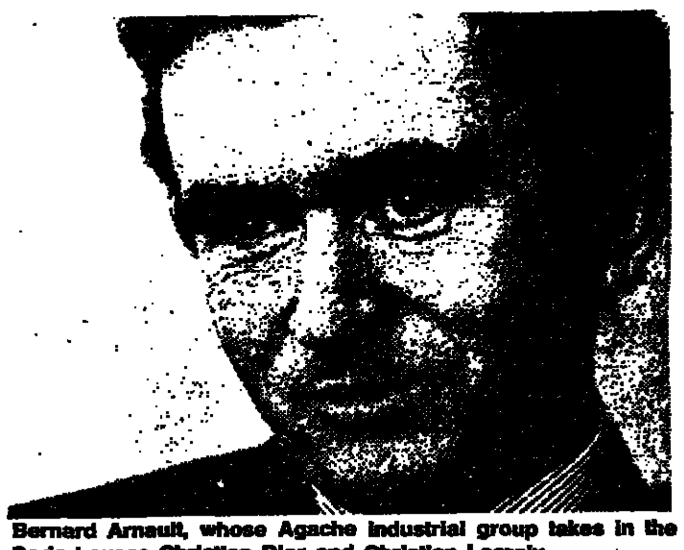
Dior alone has 300 licences, for 70 products, in 100 countries. St Laurent made an estimated FFr2.2bn (£200m) of its FFr2.5bn turnover from perfumes last year.

The licensing boom has transformed the finances of the fashion houses. Ralph Lauren, one of the leading New York designers, now presides over a $2bn (£1.1bn) conglomerate.

Early next year St Laurent will become the first publicly quoted fashion designer when it floats on the Paris stock exchange. Carlo de Benedetti's Cérus will realise a consolidated capital gain of FFr400m on its 1989 accounts, by selling a third of the holding it originally bought for FFr255m little more than two years ago.

The rapid expansion of the high fashion houses has accentuated the need for more professional management and stricter financial controls. The leading houses now need armies of accountants, lawyers and corporate strategists to control their increasingly complex activities.

Traditionally, fashion design has been a "cottage" industry with the attendant problems of weak management and fragile finances. The fortunes of Lanvin, for example, had been flagging for several years before Midland Bank stepped in.


Bernard Arnault, whose Agache industrial group takes in the Paris houses Christian Dior and Christian Lacroix


Giorgio Armani, designer

As Lanvin's problems escalated, a clutch of companies – from Clarins, the French beauty products concern, to Kashiyama, the Japanese textile group – were bandied about as potential rescuers.

The involvement of Midland has not only given Lanvin a sorely-needed injection of capital, but offers access to the managerial and strategic support which will be necessary to reorganise its existing activities and to expand into new *areas of investment*.

The experience of Christian Lacroix is cited as a paradigm for the new rapport between mainstream investors and high fashion. A few years ago Lacroix hit the headlines as the bright, young designer who was restoring the faded fortunes of Jean Patou, one of the oldest, but somewhat stodgy, *haute couture* houses in Paris.

Arnault offered to set him up in business on his own with an *initial* investment of £5m to tide him through the early years. Lacroix now designs in a chic pink and orange *hôtel* on the Rue Faubourg St Honoré

At a time when his fellow young designers are still struggling for survival, he has become the darling of the world's fashion press with a string of lucrative licences. Agache has yet to recoup its investment, but has had the benefit of an association with the most influential young designer in Paris.

Having established Lacroix, Arnault attempted to expand his interests in high fashion and luxury goods by becoming embroiled in the battle for control of LVMH: Moët Hennessy Louis Vuitton, the luxury goods group which owns the Givenchy fashion house.


Carlo de Benedetti

The arrival of de Benedetti and Arnault in the fashion world has been followed by a flurry of less publicised liaisons. Chanel is now the only one of the "Big Four" Paris houses – the others are St Laurent, Dior and Givenchy – to remain in private hands.

Fashion is a fickle business. Designers can be "in" one season and "out" the next. It remains to be seen whether the enthusiasm of the new generation of fashion investors will withstand the fluctuations of the fashion world.

In the meantime, the traditional textile industry is increasing its involvement with the top designers. The giant Italian textile groups – like Gruppo GFT and Marzotto – set the precedent for this in the 1970s, when they offered manufacturing facilities and marketing support to the emerging designers in Milan.

Italian designers, such as Giorgio Armani and Gianni Versace, benefited from access to modern production plants and, sometimes, financial support. For their part the giant groups basked in the reflected glory of their association with Armani and Versace. The Italian clothing industry is now one of the most dynamic in the world

Inspired by the Italians' success, other international textile groups have followed suit. Steilmann, the West German clothing company, has introduced a collection designed by *Karl Lagerfeld from Chanel*. Dawson, the Scottish textile concern, works with Donna Karan and Oscar de la Renta in New York. Jean-Paul Gaultier, the *enfant terrible* of Paris fashion, is involved with Fiorucci in Italy and Kashiyama of Japan.

Slowly but surely, the frivolous world of the fashion designers is becoming a serious business.

Alice Rawsthorn

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INSIDE

End of the NMB rainbow

Plans put forward by Nicholas Brady (left), US Treasury Secretary, could prove to be a turning point in the seven-year world debt crisis. But they could also put an end to an extremely profitable business for NMB, the Dutch bank, which has become a world leader in trading Third World debt. NMB believes the market in buying, selling and swapping these borrowings could dry up in as little as three years if the US plan on debt reduction succeeds. Page 30

Big Al's Yukon legacy

Before Al Kulan came to a singularly sticky end in the inappositely-named Welcome Hotel, his Rolls Royce was a common sight around the remote Canadian township of Ross River, 350 miles south of the Arctic circle. His sprawling pink and green chalet – now the local health centre – still testifies to the one-time burgermeister's affluence. But, more importantly, the huge lead-zinc mine which was the foundation of his wealth remains the backbone of the fragile Yukon economy. Page 28

Privatisation in the balance

Escom, South Africa's state-owned electricity utility, has crystalised its financial planning for privatisation in the early-1990s, based on aligning its balance sheet with those of privately-owned utilities. The company, the world's fifth largest electricity generator and its cheapest, plans to cut its debt equity ratio from 3.1:1 at the end of 1988 to 1:1 by 1997. Page 26

Tokyo market takes a train ride

A futuristic vision of Japanese life and travel in the 21st century has boosted the shares of those companies that would build the high-speed railways and vast networks of highways. Page 54

Burton first half profits rise

Burton Group, the UK clothing and department store multiple, yesterday announced interim pre-tax profits up from £109.5m to £117.5m. The figures were marginally ahead of City expectations but Sir Ralph Halpern (left), the company's chairman, said that trading conditions had been tough and did not look like improving during the second half of the year. Page 37

Caribbean bauxite carnival

Improved demand for aluminium has lifted the spirits of the Caribbean bauxite ore industry and producers throughout the region are stepping up output. Page 42

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)							
Rises							
Continental	294	+	4	Wester Consol.	46 3/4	+	1
Mannesmann	225.5	+	5	Falls			
Commerzbank	241.8	+	19	Dow Chemical	[illegible]	-	1 1/4
Falls				Federal Express	45 3/4	-	1 1/4
Linde	795	-	30	PARIS (FFr)			
Lufthansa	157.5	-	7	Rises			
Man	250	-	3	[illegible]	[illegible]	+	[illegible]
NEW YORK ($)				Falls			
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	[illegible]

New York prices at 12.30. Tokyo closed.

LONDON (Pence)							
Rises				Allied Lyons	[illegible]	-	14
[illegible]	[illegible]	+	[illegible]	[illegible]	[illegible]	-	[illegible]

Saatchi gives warning over difficulties in US

By Alice Rawsthorn in London

SAATCHI & Saatchi, one of the world's largest communications and consultancy groups, saw its share price drop by 60p to 318p yesterday after it warned of a fall in pre-tax profits this year because of difficulties in the US.

Mr Maurice Saatchi, chairman, told the group's annual meeting in London that its US advertising agencies had suffered from the deferral of several major campaigns, while some of its consultancies had *failed* to meet targets.

As a result Saatchi's first-half profits are expected to be "*substantially lower*" than *last* year, he said. The second half should be "much stronger", but not strong enough to prevent a fall in pre-tax profits for the full year.

James Capel, the London stockbroker, expects Saatchi to make pre-tax profits of about £95m in the year to September 30, compared with £138m on turnover of £862m last year.

Yesterday's profit warning marks the end of nearly two decades of apparently inexorable growth for Saatchi. The Saatchi brothers – Maurice and Charles – have transformed the company from an obscure London advertising agency into an international group with interests in many areas of business services.

The secret of their success has been a combination of strong management and ambitious acquisitions. The brothers devised the blueprint for a new type of advertising agency involved in different business disciplines across different countries. A generation of UK agencies has sprung up in the Saatchi mould.

However, the brothers' aggression and arrogance – Mr Charles Saatchi, characteristically, did *not attend yesterday's AGM* – *has turned Saatchi into the* agency that the advertising industry loves to hate.

The Saatchi success story turned sour in 1986 after the $450m (£260m) acquisition of the Ted Bates advertising agency, based in New York. The deal, which fulfilled the brothers' dream of becoming the world's biggest advertising business, was followed by a string of account losses and staff departures.

Saatchi's stock market fortunes have never really recovered. The embarrassing problems with Bates was followed by an abortive attempt to bid for Midland, the UK banking group. Earlier this month the brothers were criticised for raising their salaries by 25 per cent to £625,000 in the last financial year, at a time of lacklustre earnings growth.

The group's present problems are concentrated in the US. Saatchi lost several accounts through client conflict after the Bates acquisition. It has since recovered the lost revenue by winning new business, but these accounts are not yet contributing to profits growth.

Recently several big US clients have postponed advertising campaigns. Saatchi *expects* these campaigns to materialise *later* in the year. Meanwhile, it is incurring hefty overheads.

The consultancy division has suffered because several subsidiaries – chiefly Hay in the US – invested heavily in anticipation of new business that failed to materialise.

Saatchi is taking action to cut costs. It has already reduced central overheads and intends to sell some peripheral businesses. Mr Saatchi said he was "obviously disappointed" with the outlook for the year, but the group was "determined" to improve its performance with "caution and prudence".

AFP in rescue of property group

By Andrew Baxter in London

AFP GROUP, the UK registered holding company which has significant stakes in Australia's Elders IXL and the Gestetner office equipment group in the UK, has come to the rescue of Chase Corporation, the struggling New Zealand property developer.

AFP is to pay NZ$45.6m ($28.5m) for a 20 per cent stake in Chase, which along with several other entrepreneurial Australasian groups has been hard-pressed since the October 1987 stock market crash.

The two companies said AFP intends to seek approval from New Zealand's Commerce Commission for a possible increase in its stake to 40 per cent. AFP will also pay Chase NZ$106.8m for 19.9 per cent of the New Zealand group's 44.9 per cent holding in Wormald International, the Australian-based fire protection equipment concern.

Mr John Geraghty and Mr Colin Reynolds, chairmen of AFP and Chase respectively, said they hoped the moves would put to rest speculation about Chase, whose shares were trading at just 30 New Zealand cents at the *end of last week compared with* a peak of A$6.60 before the market crash. Yesterday, Chase's shares rose 5 cents to stand at 40 cents in expectation of the recapitalisation.

Chase, badly hit by the downturn in the New Zealand property market, has been trying to reduce gearing levels and raise cash. Last month it put its stake in Australia's Hanimex camera group up for sale.

In London yesterday Mr Basil Sellers, managing director of AFP and chairman of Gestetner, said AFP had been seeking to find a way into property.

AFP is paying 50 New Zealand cents a share for 10 per cent of existing Chase stock, with the rest of the stake coming from a proposed new share issue. Mr Sellers said AFP was "very comfortable" with the price paid for the stake, which represented "a cheap option over NZ$2bn of real estate assets."

AFP plans to return Chase to its former focus on property, a side which it would develop using asset sales elsewhere. However, Mr Sellers said that "none of us" foresaw any imme*diate* upturn in the domestic property market.

The problems at Chase were underlined yesterday when it reported pre-tax profits of NZ$36.5m for the first half of 1988/89, down sharply from NZ$70.25m a year earlier.

Renault unveils record profits

By Paul Betts in Paris

RENAULT, the French state-owned car group, has staged a remarkable financial recovery, reporting record net profits of FFr8.8bn ($1.4bn) for 1988, compared with FFr3.7bn the year before.

The latest results comfortably exceed earlier estimates of between FFr6bn and FFr7bn. Mr Raymond Levy, chairman, also confirmed the successful restructuring of the group's balance sheet with an impressive reduction of Renault's net debt from FFr46.4bn at the end of 1987 to FFr23.8bn a year later.

The company's own financial performance was responsible for the reduction of FFr10.5bn of debts. But Renault also benefited from the decision of the French government, its main shareholder, to forgive FFr12bn worth of debts.

Although the French government has still not received the approval of the European Commission for the Renault debt write-offs, the state car group said yesterday that it had already included the FFr12bn debt relief in its 1988 accounts. Mr Levy strongly defended the debt write-off claiming that it was a "normal gesture from a shareholder".

As a result of the strong earnings performance and the government debt forgiveness, the group's balance sheet returned from showing negative net worth of FFr7.8bn at the end of 1987 to a positive FFr14bn a year later.

Mr Levy said all operations with the exception of Renault's industrial automation division were in the black last year. The car division's contribution to profits rose from FFr2.8bn in 1987 to FFr6bn last year.

Group operating profits rose to FFr14.4bn last year from FFr3.2bn the year before. Sales rose by 9.4 per cent to FFr161.4bn, with international sales accounting for 51.8 per cent of the total. Renault sold a total of 1.9m vehicles last year.

Cash flow rose from FFr10bn in 1987 to FFr15.3bn last year. Capital expenditures also rose from FFr7bn to FFr7.3bn. However, the company said these capital spending figures did not fully reflect the group's investment trend since capital expenditure commitments increased by 44 per cent last year to FFr8.8bn from FFr6.1bn the year before.

In spite of the group's better-than-expected performance last year, Mr Levy warned yesterday that Renault had to continue reducing its overall debt and make additional productivity gains. The group reduced its financial and debt servicing costs from FFr4.2bn in 1987 to FFr3.5bn last year

As an eloquent sign of the group's improved fortunes, Mr Levy said Renault would distribute about FFr445m, the equivalent of roughly 5 per cent of the group's 1988 net profits, to its 180,000 employees as part of Renault's policy of involving workers in the financial performance of the company.

Sporck increases control of National Semiconductor

By Louise Kehoe in San Francisco

MR CHARLES Sporck, president and chief executive of National Semiconductor, is to take direct responsibility for the company's ailing semiconductor operations.

The move follows the retirement of executive vice-president Mr James Smaha, who has run the semiconductor group for four years.

National announced late Monday that Mr Smaha would retire at the end of the week, after 15 years with the company. His departure follows the recent and pending divestitures of National's two computer operations.

Although the announcement surprised industry analysts, company officials said Mr Smaha has been considering the move for several months. A spokesman said that Mr Smaha, who is 54, planned to "put his feet up for a while."

Company observers noted Mr Sporck has taken a closer personal interest in the semiconductor operation recently. At a January analysts' meeting Mr Sporck acknowledged that his involvement in outside interests - such as the formation of the industry consortium Sematech and the industry's trade battle with Japan – had distracted him from the company's disappointing semiconductor performance.

"For one reason or another, I didn't face the music and chose to live with a situation that I'm no longer going to live with," Mr. Sporck told analysts. He said that National would make senior management changes to help improve its chip business.

Mr Sporck said yesterday that as the result of the recent divestiture of Datachecker, a supermarket-checkout computer system operation sold to Britain's ICL, and the pending sale of *National Advanced Systems*, National's mainframe computer business which is to be acquired by Electronic Data Systems and Hitachi, the company was "a single division company again". "In light of this, I have reluctantly accepted Jim's decision to retire."

Carlo Azeglio Ciampi

Marriage Italian style

A merger wave is sweeping through the country's banking industry. Alan Friedman reports

A RASH OF recently unveiled alliances suggests that 1989 could prove a landmark year for Italy's fragmented but fast changing banking system.

Last night Mr Giuliano Amato, Italy's Treasury minister, met a group of senior bankers to discuss one of the most significant in a series of takeovers, mergers and recapitalisations which are aimed at rationalising the Italian banking sector and achieving the "critical mass" and cost reductions needed to stay competitive in the New Europe of the 1990s.

Last night's meeting is expected to lead to Government approval for a plan to bring together the Istituto San Paolo di Torino, a leading Italian commercial bank, and Crediop, a cash-rich corporate finance and investment banking group. San Paolo wants to spend around L1,000bn ($725m) to buy a 40 per cent equity stake in Crediop, in a move which would create one of Italy's two or three most powerful banking institutions.

After years of idle talk, behind-the-scenes pressure from the Bank of Italy and good old fashioned pork barrel politics in the nation's largely state-controlled banking sector, there are finally signs of action: the nation's top central bankers, state industry officials and commercial bankers recognise that the system is in many aspects inefficient and not sufficiently concentrated.

There are many reasons why Italian banking is in such need of change. The system is a bewildering array of 1,200 separate institutions with 12,000 branches, ranging from one-branch rural agrarian and savings banks to three big commercial banks controlled by the IRI state holding giant and the nation's largest bank, the Banca Nazionale del Lavoro (BNL), which is 74 per cent owned by the Treasury.

Something like 80 or 90 per cent of the system is in the public sector and banks are an integral part of Italy's political spoils system of *lottizzazione*, or "jobs for the boys".

Italy's banking system is not merely one of the least concentrated in the world; the country's oligopolistic business culture also means that a number of senior bankers have not been schooled in the ways of free market competition, though there is a more competitive spirit taking hold.

Few Italian banks are of much consequence in the international capital markets, and at home many are overstaffed by as much as 30 per cent. It has long been a political taboo to cut jobs among the 300,000 poorly-paid and bureaucratic staff.

The level of customer service at most retail branches is horribly poor. The payments system is so inefficient that it can take up to a month for cheques to clear.

Most important, as Mr Nerio Nesi, chairman of BNL, puts it, is the need to "create a new management culture among our bankers." A senior foreign banker, who asked to remain anonymous, poses the problem in even starker terms: "If Italian banks don't put their house in order, and quickly, they're going to get killed by international competition in the future."

This is the backdrop to the presently feverish rationalisation movement. The incubation period has been long, about five years, but now a virtual domino effect is under way. As often occurs in Italian life, once change begins it can spread with great rapidity.

A group of influential men – including Mr Carlo Azeglio Ciampi, governor of the central bank; Treasury minister Giuliano Amato; Prof Romano Prodi, chairman of IRI; Mr Nerio Nesi of BNL; Mr Gianni Zandano, chairman of San Paolo; Mr Paolo Baratta, chairman of Crediop; Mr *Luigi Arcuti, chairman of IMI*, the medium term corporate finance institute and Mr Lucio Rondelli, managing director of the IRI-owned Credito Italiano – is in agreement that the banking system must move toward larger branch networks, better capital ratios, more entrepreneurial strategies and international alliances.

The model for the Italian bank of the future is described as "poly-functional", meaning institutions that should achieve synergies between commercial banking, investment banking, financial services, medium-term lending and securities activities.

Significant projects under way include:

● San Paolo of Turin looks set to buy 40 per cent of Crediop. This is aimed at bringing together San Paolo's 750-branch network and commercial banking strength with Crediop's medium-term corporate lending and sizeable (L2,000bn) liquidity.

● BNL, which has a strong 500-branch retail presence, a rather disparate string of para-banking subsidiaries in leasing, factoring, investment banking, insurance and mutual funds, and a weakness in foreign business, needs to raise between L1,000bn and L2,000bn of new capital in order to consolidate itself as a group and expand into the 1990s.

Because two of Crediop's main institutional shareholders – INA, the state insurer, and INPs, the state pension concern – are also owners of substantial BNL stock, it is expected that cash raised from the San Paolo purchase of Crediop equity will be filtered into a forthcoming BNL capital increase. There is even discussion about bringing BNL, INA and INPs together in a new Rome-based financial holding group.

● IRI recently agreed to sell 51 per cent of its Banco di Santo Spirito subsidiary to Cassa di Risparmio di Roma, the country's second largest savings bank. The deal is likely to raise around L800bn, money that will be used to subscribe IRI's part of a badly needed L1,000bn capital increase for its troubled Banco di Roma subsidiary. At the same time IRI is prepared to sell 20 per cent of Banco di Roma to IMI, paving the way for a deal allowing IMI to market its financial products via the 330-branch Banco di Roma. Meanwhile, Banco di Roma's commercial activities would be linked to the medium-term finance business of IMI.

● Nuovo Banco Ambrosiano is to merge with its 51 per cent Banca Cattolica del Veneto subsidiary, creating a powerful force in Northern Italian banking.

● IRI's well-managed Credito Italiano subsidiary is on its way to taking a 20 to 30 per cent stake in the less efficient and undercapitalised Banca Nazionale dell'Agricoltura (BNA), the nation's largest private sector bank. The branch networks of these two banks are complementary and the deal is being encouraged by the central bank.

The boldest move of them all, an eventual merger between BNL and IRI's Banca Commerciale Italiana (BCI) subsidiary, is Italy's best chance of creating a "super-bank" able to take a place in the world's top 30 league table. Although BNL's Mr Nesi says he is open to this possibility and IRI's Prof Prodi calls the idea "just a dream for the time being," the prospect of a BNL-BCI merger is currently being floated at the highest levels of Italian government and banking.

Because of the peculiarities of Italian banking and politics there are any number of potential pitfalls along the restructuring road. But it is now clear that the nation's key decision-makers have recognised the weaknesses of the system and formed a consensus on the need to act. In Italy, diagnosing a problem and agreeing on the need for a solution generally means more than half of the battle has been won.

INTERNATIONAL COMPANIES AND FINANCE

Sliding oil prices hit Shell UK earnings

By Steven Butler

SHELL UK, the UK operating company of the Royal/Dutch Shell Group, saw its 1988 net profits plunge by more than half, mainly as a result of weak oil prices throughout the year.

However, Shell also had a poor year in UK refining and marketing, with net profits on a historical cost basis slipping from £91m ($155.6m) of income to a £28m loss. With the effect of inventory losses netted out, profits on a replacement cost basis fell from £63m to £34m.

Mr Roy Reynolds, who manages Shell's downstream operation in the UK, laid much of the blame on the commissioning of a new cracker, used for producing petrol, at mid-year, which handicapped the refinery at a time when other refiners were enjoying improved margins for petrol.

Shell's market share in the UK fell significantly after January 1988, when the company withdrew Formula Shell from sale following complaints that car engines could be damaged by the product. Mr Reynolds said yesterday that Shell's market share was continuing to improve, although he declined to say by how much.

Shell last year added new reserves to replace its annual oil production, averaging 335,000 barrels a day, for the first time since 1981. Most of the increase came from the "Petrel" field. "Petrel" is Shell's name for the Nelson field, the 300m barrels-plus field discovered last year by Enterprise Oil, the independent oil company. The field straddles licence blocks owned by Enterprise (100 per cent) and Shell/Esso (50 per cent each).

Shell and Enterprise are evidently gearing up for a battle over who will develop the field.

Aside from lower oil prices, Shell's profits also suffered because of increasing tax liabilities on mature fields, with tax as a share of pre-tax profits rising from 43 per cent to 60 per cent. Net profits upstream fell from £539m to £240m.

Chemicals profits nearly doubled from £44m to £80m. Total turnover for the company fell from £6.9bn to £6.5bn. Capital and exploration expenditure rose to £586m (£556m.)

France bars Spontex deal with US sponge maker

By George Graham in Paris

THE FRENCH Government has blocked the FFr1.1bn ($173m) takeover of Spontex, the leading manufacturer of household sponges, by 3M, the US industrial conglomerate.

Mr Pierre Bérégovoy, the finance minister, and Mr Roger Fauroux, the industry minister, announced yesterday that they were banning the purchase because of the dominant position the combined group would have in the French market for scouring pads.

Officials insist the decision was prompted solely by concerns about the concentration the purchase would create, not by nationalist concerns. They note that two weeks ago Mr Bérégovoy approved the takeover of paper company Aussedat-Rey by International Paper of the US.

"My point of view is that France should be open to foreign investments when these are economically profitable to the country: that is, when they are wealth creators," Mr Bérégovoy said earlier this month.

The French competition council had earlier given an opinion that the purchase of Spontex from its current parent, the transport and textiles group Chargeurs, would not damage competition.

A finance ministry communique noted, however, that 3M's Scotch Brite brand together with Spontex would control 75.6 per cent of the French scouring pad market, a position reinforced by Spontex's dominance in the connected household sponge market.

3M had argued that the French scouring pad market could not be considered in isolation from the rest of Europe, and also that other products could easily be substituted for scouring pads.

An alternative buyer already exists, in the form of a consortium including Compagnie Financière de Suez, the Euris investment fund, corporate finance specialists LBO-France, the Caisse des Depots and Hutchinson, a rubber subsidiary of oil major Total.

Mr Jerome Seydoux, chairman of Chargeurs, is thought to be keen to press ahead with a sale of Spontex, to release further capital for his strategy of recentering the group on the two sectors of textiles, with the Prouvost and Roudiere activities, and transport, with airline UTA.

Indosuez advances by 14%

By George Graham

BANQUE INDOSUEZ, the principal banking subsidiary of the Suez investment group, has reported a 14 per cent increase in net profits in 1988 to FFr993m ($156.6m).

Mr Antoine Jeancourt-Galignani, the bank's chairman, said the rise was satisfactory taking into account a strong increase in the level of provisions made on debts in risk countries and a big gain in earnings from the group's specialities such as financial engineering, capital market activities and international trade finance.

Gross operating income rose 22 per cent to FFr2.89bn, but Indosuez increased its provisioning effort by nearly 60 per cent to FFr1.24bn in 1988.

Most of the new provisions were made on country risks, taking the bank's overall rate of coverage to 41 per cent of its exposure in risk countries, with a rate of 67 per cent in the Middle East.

Nearly FFr400m of provisions were also made to cover client risks, mainly for bad loans in Bahrain as well as two failures in the US, including $10m on loans to Coleco, the toy company.

Mr Jeancourt-Galignani said Cheuvreux de Virieu, the French stockbroker Indosuez has acquired, made profits of about FFr30m in 1988 to become the leading equity broker in France.

W I Carr, the UK and Far Eastern group which is Indosuez's other main broking interest, lost rather more than this.

Losses were incurred mostly in London, but were partly offset by good earnings in the Far East.

Mr Jeancourt-Galignani said the losses were covered by an unrealised capital gain on a 5 per cent stake in Daishin, the South Korean broker.

Hambros to raise £100m in bid

By Philip Coggan

HAMBROS BANK yesterday launched an £166m ($284m) bid for Hambros Investment Trust, in what was effectively a disguised rights issue which will raise around £100m for the UK merchant bank.

If the offer is successful, Hambros will sell the majority of the investment trust's quoted investments, worth around £100m.

The proceeds will be used to expand Hambros banking activities in the UK, following a move to a new headquarters' building at Tower Hill.

The remainder of the trust's portfolio will be retained. In particular, the trust's property interests will be transferred to Berkeley Hambro, Hambros' 75 per cent owned property subsidiary.

Hambros will, if the offer is successful, increase its stake in Hambros Advanced Technology Trust, a specialist investment trust, to 53 per cent.

The bid for the trust allows Hambros to raise cash without making a rights issue, which would inevitably involve issuing shares at a substantial discount.

Hambros and its subsidiaries own 26.5 per cent of HIT and 15 per cent of the warrants.

Prudential counters fears of rights issue

By Nick Bunker

STOCK MARKET fears of a rights issue by Prudential Corporation began receding yesterday after the UK's biggest insurer said it planned to raise to 10 per cent the proportion of its life assurance profits which go to shareholders.

The increase, to be phased in over two stages, has boosted Prudential's 1988 after-tax profits by £7m ($12m), and should provide another £30m in 1989. It reflects the view of Prudential that resources should be reallocated to its shareholders' funds, because shareholders have been financing recent developments which will benefit policyholders.

Best-known among these has been Prudential's £300m investment in building a nationwide chain of estate agencies, which last year sold 17,000 mortgage-related endowment policies.

The move helped Prudential report yesterday a 40 per cent jump in pre-tax profits to £339.6m for the 12 months to December 31, overshooting analysts' most optimistic forecasts by more than £20m.

At the pre-tax trading level, where Prudential includes unrealised capital appreciation on its non-life insurance funds, profits were up 35.6 per cent at £352.6m. Attributable profits were £231.5m (1987:£174.5m.)

Prudential is raising its total dividend by 18 per cent to 8p. It has increased to 13 per cent the bonuses allocated to its policyholders, totalling £1.12bn for 1988.

Attention in London focused on the change in Prudential's participation rate — the proportion of life profits which go to shareholders.

Until 1952, this was 10 per cent, before falling to 5.7 per cent and then inching up again to about 7.5 per cent, still less than the 10 per cent typical of most UK shareholder-owned life companies.

For 1988, Prudential has increased the rate to about 8 per cent. A second stage of the increase will come next year.

Analysts saw the move as reducing the possibility of a call on investors to replenish Prudential's balance sheet.

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Escom prepares plans for privatisation in 1990s

By Jim Jones in Johannesburg

ESCOM, South Africa's state-owned electricity utility, is preparing the ground for privatisation in the early 1990s by aligning its balance sheet with those of privately owned utilities.

The utility, the fifth largest and cheapest electricity generator in the world, plans to cut its debt-equity ratio to 1:1 by 1997 from 3.1:1 at the end of 1988. Dr John Maree, the chairman, and his board believe the target balance sheet structure could be achieved fairly easily because the next generation of power stations was unlikely to be needed or financed much before the turn of the century.

The next generation will include coastal nuclear plants even though South Africa's coal reserves could satisfy the country's electricity needs well into the second half of the next century.

Towards the end of next year, Mozambique's Cahora Bassa hydro scheme is expected to deliver 1,356 megawatts, equivalent to 4 per cent of Escom's present capacity, to the South African grid provided 1,400 sabotaged pylons could be rebuilt and the power lines through Mozambique protected from Renamo insurgents.

South Africa's electricity demand is expected to grow at an average annual compound rate of between 4 per cent and 5 per cent for the rest of this century.

Escom's sales grew by an exceptionally high 5.7 per cent to 129,493 gigawatt hours in 1988 but a slower rate of increase is forecast this year in line with slower economic growth. Installed capacity totalled 33,176 megawatts at the end of 1988 and the year's peak demand was 20,589 megawatts.

Turnover rose to R8.16bn ($1.87bn) last year from 1987's R7.05bn and the net income after finance charges increased to R818m from R702m. Internally-generated funds financed 64 per cent of last year's R4.18bn capital expenditure against 59.2 per cent of 1987's R3.97bn.

Escom's efforts to increase electricity consumption display something akin to missionary zeal, particularly in black townships which have no reticulation systems. The utility recently joined with Volkswagen to electrify black residential areas in the motor city of Uitenhage.

It is discussing joint ventures with other private sector employers to provide power to about 10m people in other black townships, believing this will spur development of the informal sector of the economy. Privatisation forms part of this programme as market research indicates many black people resent Escom, seeing it as government-run.

COMPANY NEWS IN BRIEF

SEA CONTAINERS, the Bermuda-based shipping and container leasing group, yesterday announced plans to spend up to $50m to purchase its own shares, writes Kevin Brown.

The group said Sea Containers House, a wholly-owned subsidiary, would commit $50m to purchase the common shares of the parent group "from time to time." Sea Containers said the proposed purchases were in line with the group's expectations of the long-term value of its stock.

The announcement follows the acquisition of an 8.17 per cent stake in Sea Containers by Stena, the Swedish ferries and property group.

The funds committed to share purchases by Sea Containers House would finance the purchase of around 12 per cent of the issued shares. It was not clear last night what timetable for share purchases Sea Containers has in mind.

● Société Générale de Belgique, Belgium's largest holding company, will raise its stake in Bouygues, the French construction and communications group, to 10.05 per cent from 8.8 per cent in "the coming days," writes Our Financial Staff.

La Générale said its board had approved the transaction at their monthly meeting a week ago. The company acquired the Bouygues stake in early 1989 from its parent company Compagnie Financière de Suez.

● Pargesa Holding, the Swiss-based international financial holding company, yesterday announced it plans to raise its 1988 dividend to SFr65 ($40.3) a share from SFr62 in 1987 results.

The parent company posted net income in 1988 of SFr90m, up 14 per cent from SFr79m in 1987.

● Wartsila, the Finnish engineering and shipbuilding group, reported a FM236m ($32.7m) loss for 1988, compared with profit before extraordinary items of FM149m in 1987, due to a FM638m loss by its marine division. Final group profit, after FM428m in extraordinary items — mainly from the sale of fixed assets — was FM192m in 1988, compared with FM183m in 1987. Wartsila said the profit indicated the group's underlying solidity and sound financial structure.

Ambrosiano parent lifts profits 16%

By Our Financial Staff

NUOVO Banco Ambrosiano, the Italian bank formed after the liquidation of Banco Ambrosiano, said yesterday that parent company net profit rose 16.1 per cent in 1988 to L50bn ($36.3m) from L43.1bn in the previous year. Consolidated group earnings also rose.

The bank said it intends to pay a dividend on 1988 earnings of L70 a common share, up from L60 in 1987, and of L80 a savings share, up from L60.

At the end of 1988, overall deposits from clients amounted to L6,787bn, an increase of 12 per cent on the previous year's L6,040bn total.

The value of funds under management by the bank, which includes deposits and securities which are held for client accounts, totalled L15,944bn at the end of 1988, up 18.2 per cent from L13,485bn a year earlier.

The bank noted that its earnings were reduced by a L52.5bn charge to amortise obligations arising from the failure of Banco Ambrosiano in 1982.

INTERNATIONAL COMPANIES AND FINANCE

United Asian Bank continues recovery

By Wong Sulong in Kuala Lumpur

UNITED ASIAN Bank, which was rescued from bankruptcy by the Malaysian central bank in 1987, is continuing its recovery, reporting a profit of 26.7m ringgit ($9.8m) for 1988.

The bank said this was the highest profit recorded since its incorporation in 1973. It compared with 4.1m ringgit for 1987.

Mr Tan Sri Kadir Soenarno, chairman, said the bank was "still heavily burdened with a hefty accumulated loss," amounting to 406m ringgit, but added "public confidence has been restored." He said this was reflected by deposits which grew by more than 30 per cent to 2.1bn ringgit.

Apart from developing new business, he said, the bank would still give priority to bad debt recovery. About half its loan portfolio is classified as bad and doubtful debt.

The bank incurred losses of more than 425m ringgit during 1985 and 1986, and Bank Negara, the central bank, had to inject fresh capital to save it from collapse. The central bank now holds 78 per cent of UAB's paid-up capital of 457m ringgit.

Meanwhile the central bank has announced it was using its powers to reduce the paid-up capital of three loss-making financial institutions.

The paid-up capital of Oriental Bank would be reduced from 46m ringgit to 2m ringgit, that of Supreme Finance Corporation from 27m ringgit to 270,000 ringgit and that of First Malaysia Finance Berhad from 20m ringgit to 2m ringgit. The three institutions had accumulated losses of 61m ringgit, 113m ringgit and 114m ringgit respectively. Bank Negara is expected to inject fresh capital into these institutions, and has assured depositors that their deposits are safe.

Malaysia Mining shows 41% gain

By Wong Sulong

MALAYSIA Mining Corporation, the country's biggest tin mining group, has reported a 41 per cent increase in pre-tax profits, to 71.4m ringgit ($26.2m) for the year ended January.

Turnover rose by 23 per cent to 644m ringgit, while after-tax profit was 53 per cent higher at 52.3m ringgit.

There was also an extraordinary gain of 118m ringgit. This was mainly due to a write-back of a provision for diminution in value of investments.

MMC is paying a final dividend of 3 cents a share, making a total of 5 cents for the year compared with 3.5 cents previously.

Minorco proposes sale by tender for Renison stake

By Chris Sherwell in Sydney

MINORCO, the South African-controlled company bidding £3.2bn ($5.6bn) for Consolidated Gold Fields of the UK, will sell by tender the 49 per cent-owned Australian affiliate, Renison Goldfields, if its takeover succeeds.

This was confirmed yesterday by Aries Consultants, the firm Minorco has appointed to handle the sale, and arrangements for the disposal are now being put in place. Minorco announced some time ago that it would sell Renison, but not to an associate of Anglo American, De Beers or the Oppenheimer family.

The Renison stake is attractive to many leading mining groups because of its large mineral sands interests and its one-third stake in the Porgera mine project in Papua New Guinea, said to be one of the largest gold deposits in the world.

Renison's existing management is also thought to be interested in bidding if it can put together a suitable package. On the basis of current market capitalisation, any bidder for the stake would be expected to offer more than A$650m. A cash offer for the balance of the public shareholding would then follow.

Aries Consultants is represented by Mr David Davies, the former chief executive of Hill Samuel group, the London merchant bank, and Mr Robert Frost, recently retired executive chairman of MEPC Australia, the property group.

Mr Frost said yesterday that a sale by tender was the most appropriate way to deal with the asset. "It is our intention, by the tender process, to give everybody an equal chance to make their own valuations and submit them to us," he said.

"It is already clear that there are a number of Australian buyers lining up, some of them in joint ventures with overseas partners," he added. There was also strong interest from abroad.

Minorco renewed its bid for Consolidated Gold Fields last month, offering one new Minorco share and £20.50 for every two Goldfields shares. It already has a 29.6 per cent stake in the group.

Wing On rejects HK$3bn bid

By John Elliott in Hong Kong

WING ON Holdings, a Hong Kong property and banking group best known for its Wing On department stores, last night rejected as "wholly inadequate and unwelcome" a HK$3bn (US$385m) takeover bid from New World Development, a property company controlled by Mr Cheng Yu-Tung.

In a parallel move, New World – which is one of Hong Kong's most active property developers – announced its intention to raise HK$1bn through a convertible bond issue, which Paribas is handling.

Wing On is run by the Kwok family (separate from the Kwok family which controls Sun Hung Kai Properties).

They control more than 50 per cent of the company, whose interests include a stake in the Wing On Bank and substantial property and retailing activities.

Yesterday it was announced that their long-term partner in Wing On, Overseas-Chinese Banking Corporation of Singapore, had sold its 24.5 per cent stake in Wing On to New World last Friday.

The price for this sale was reported to be HK$11.525 a share.

New World's HK$3bn offer yesterday was at a considerably higher price of HK$17 a share.

Wing On's shares were suspended on the Hong Kong stock exchange at a market price of HK$14.50 yesterday morning.

The HK$17 offer is broadly in line with the company's net asset value.

A statement issued last night by Schroders Asia, the merchant bank, said that the offer "seriously undervalues" the company and was "wholly inadequate and unwelcome." Shareholders controlling more than 50 per cent of the company did "not intend to accept" the offer.

New World's property and hotel interests include Hong Kong's prestige convention-centre development, which will have two hotels, the Grand Hyatt and New World.

Jardine Strategic rises 67%

By John Elliott

JARDINE STRATEGIC Holdings, which controls the main investments of the Jardine Matheson group, yesterday announced profits of HK$875m (US$112m) for 1988, an increase of 67 per cent over 1987.

It was the last of the series of buoyant profit announcements from Jardine Matheson companies, which included Hongkong Land, Mandarin Oriental and Dairy Farm during the past week. Jardine Strategic Holdings was set up two years ago in a corporate reorganisation. It is 55 per cent owned by Jardine Matheson, in which it in turn has a 32 per cent stake.

Mr Simon Keswick, the chairman, said yesterday that Strategic's net asset value per share had risen 42 per cent to HK$16.11, compared with HK$11.31 a year earlier.

In addition to its 32 per cent investment in Jardine Matheson, the company now owns 41 per cent of Dairy Farm, 33 per cent of Hongkong Land and 45 per cent of Mandarin Oriental.

A net extraordinary charge of HK$43m has been included in the results, in respect of a proposed settlement of legal action brought by Bear Stearns in New York against Strategic for its aborted plan to buy a 20 per cent stake in the Wall Street brokerage.

Exports swell Zenith earnings

By R.C Murthy in Bombay

EXPORTS HAVE swelled the profits of Zenith, the multi-product flagship company of Mr Ashok Birla, the Indian industrialist.

Net profits for the 18 months to last December soared to Rs70.8m ($4.49m) from Rs23.7m in the previous 12 months. Earnings from exports, which became tax exempt last year, accounted for about a sixth of the latest total. Mr Birla says export profitability was also assisted by the continuing depreciation of the rupee against major currencies. Zenith projects that exports will account for a quarter of total sales this year against a tenth last year, when revenues overall rose to Rs2.69bn in the 18 months from Rs1.55bn.

Zenith, which started by manufacturing steel pipe, now has wide-spread business interests including chemicals, paper and special steels.

A dividend of Rs3.60, including the Rs2 interim, is proposed on capital expanded by a one-for-four scrip issue last year. A Rs1bn convertible bond issue is planned for the end of the year.

Hewlett to sell SA sales unit

HEWLETT-PACKARD, the US maker of electronic instruments and systems, said it planned to sell its South African sales subsidiary to Siltek, a South African manufacturer and distributor of computer products, Reuter reports.

Financial details of the arrangement were not disclosed but Palo Alto-based Hewlett-Packard said that the disposal would not have a material effect on its 1989 financial results.

INTERNATIONAL COMPANIES AND FINANCE

A Yukon ghost town comes back to life

David Owen reports on the impact of the metal prices surge on a remote region

AL Kulan's Rolls-Royce used to be a common sight in the remote native township of Ross River, 180 miles north-east of Whitehorse and 350 miles south of the Arctic Circle.

That was before the minerals prospector came to a singularly sticky end in the local watering hole – the inappositely-named Welcome Hotel.

Mr Kulan's sprawling pink and green chalet – now the local health centre – still testifies to the one-time burgermeister's affluence.

More importantly, the huge lead-zinc mine which was the foundation of his wealth remains the backbone of the fragile Yukon economy. This is despite having passed through the successive hands, including Standard Oil, Hudson's Bay Oil & Gas and Dome Petroleum, and having weathered a four-year shutdown – beginning in 1982 – during its turbulent 20-year existence.

The present owner, Mr Clifford Frame's Curragh Resources, acquired and reopened the mine when lead and zinc prices were in the doldrums in early 1986. "When we started up this thing," Mr Frame recalls, drawing on a Churchillian cigar, "no major mining house in the world wanted anything to do with it."

The start-up package negotiated by Mr Frame, Curragh's chairman, included a C$17m (US$14m) federal government loan guarantee and an exploration and development grant of C$8m. A C$7m mortgage on the purpose-built outpost of Faro, a mining town so remote its rubbish tip is frequented by grizzly bears, was also agreed.

Mr Frame maintains: "The guarantee was a pretty cheap way to put the Yukon back on its feet."

In its first year back in operations, the mine increased the Klondike territory's fluctuating mineral revenues by nearly C$300m or approaching 500 per cent.

Since then, zinc prices have more than doubled to just under 90 US cents a lb and the lead market too has achieved a modicum of respectability. "Nothing," says Mr Frame in conclusion, "is as cyclical as lead and zinc."

As a native of Trail, British Columbia, site of one of the world's largest lead/zinc smelters, and a past general manager of Tara Mines in Ireland, his words carry a certain resonance.

For about another three years, Curragh will be able to continue exploiting the original Faro orebody, which after 20 years in service lies at the bottom of a 1,200ft open pit. If the company wishes to keep mining that lode, underground operations will have to be started.

From the bowels of the pit, towering 170-tonne trucks transport the grey rock up a spiralling path to the nearby mill. There it is processed in the time-honoured fashion, and lead and zinc are separated at the flotation stage.

The resultant concentrate is loaded on to lorries for the long haul to the port of Skagway, Alaska. About half of the mine's output is destined for the Pacific Rim, principally Japan and South Korea, with the rest sent to West Europe and Morocco.

The zinc concentrates contain about 49 per cent zinc, while the lead concentrates are of 58-59 per cent purity, and it is hoped adjustments to the ageing mill will raise these figures to 52 and 62 per cent respectively.

The buoyancy of base metals markets and the imminent demise of the Faro pit have prompted Curragh, the beneficiary in 1987 of a big equity infusion from Giant Resources of Australia, to steam ahead with the development of two new orebodies 13km away. In return for the infusion, Giant received a 46 per cent stake in Curragh.

Work has begun on a haulage road to link the orebodies to the Faro mill. Completion is scheduled for May or June, to permit milling tests on the new ore by the end of the year.

According to Mr Frame, aggregate capital spending at the mine-site over the next five years will be C$150m-200m. Eventually, the so-called Vangorda and Grum deposits should enable the mine's output to rise to a targeted 600,000 tonnes per year.

In 1988, production was well below this at 515,000 tonnes, due partly to a month-long summer strike over pay and conditions. The production total comprised 315,000 tonnes of zinc and 200,000 tonnes of lead concentrate.

In addition, the shorter working week agreed to has obliged Curragh to take on extra staff, raising the mine's overall workforce to about 500 and the population of Faro to 1,790. The township, which became a virtual ghost town while the mine was closed, is thus once again the second largest community in the whole of the Yukon.

Already, 1989 production looks like being below the 580,000-590,000-tonne target due to problems of an entirely different nature.

In a nutshell, the Yukon and Alaska region has been hit by an unusually severe winter, which has seen temperatures plummet to -60C.

Mr Bill Weymark, general manager, admits that the intense cold has slowed operations. "We kept going because if you stop, everything just freezes up on you."

More seriously, a blockage on the road to Skagway forced Curragh for several days to declare *force majeure* on overseas shipments. The company estimates that the disruption will cut 1989 output by 10,000-20,000 tonnes.

Salomon joins Kelly in $740m bid for Envirodyne

By Roderick Oram in New York

IN AN effort to bolster their roles in the leveraged buy-out business, a former star and an also-ran have joined forces to buy a Chicago food packaging and supplies company.

Envirodyne Industries and its major shareholder have accepted a $40 a share, $740m offer from Mr Donald Kelly, who helped lead the 1986 $6.1bn purchase of Beatrice Companies, the second largest buy-out ever, and Salomon Brothers, the Wall Street investment firm.

The deal is the largest yet in which Salomon has committed its own capital. The firm joined forces with Mr Kelly last December to expand its merchant banking activities which are among the least developed of any big Wall Street house.

Mr Kelly and Salomon will contribute about $100m in equity for the purchase, borrow some $360m from banks and lead a $300m bridge loan which will be refinanced by a junk bond offering.

Artra Group, a Chicago area holding company in scientific instruments and plastics, is to tender its 26 per cent stake in Envirodyne, and receive $75m cash, $50m face value of debt and 27.5 per cent of the shares of the new company.

Envirodyne is an industry leader in sausage casings and other products for packaging and preserving foods, thanks to its 1986 purchases of businesses from Union Carbide and RJR Nabisco. Last year it had net income of $46.2m, or $2.64 a share, on sales of $486.4m.

Mr Kelly had worked with Kohlberg Kravis Roberts to take Beatrice private. He remained chairman while he sold off large parts of the group, largely covering the buy-out price. But after he and KKR failed to find buyers for the core of Beatrice, which would have represented KKR's profits on the buy-out, he resigned last autumn.

Former suitor pays $635m for Spectradyne

By James Buchan

SPECTRADYNE, the Texas-based company which dominates the fast-growing market for pay movies in US hotel rooms, was yesterday sold for $635m to Mr Marvin Davis, the Denver-based businessman who once owned the Twentieth Century Fox film studio.

The deal will give Mr Davis control of a company which he tried to buy in 1987 for about half the price. Last year, Spectradyne had revenue of about $110m from providing pay-per-view movies and other information services to guests at big hotel chains.

Mr Davis, who built a fortune in oil and real estate and owned Fox from 1981 to 1985, is buying the group in a joint venture with Prudential Insurance.

The seller is Acadia Partners, a Fort Worth, Texas investment group which includes interests connected with Mr Robert Bass, a leading investor in media and publishing businesses. Acadia bought Spectradyne for $452m in cash and securities in 1987 and Mr Davis withdrew an offer of $332m. Spectradyne's 1988 revenue was in excess of $110m. Acadia specialises in leveraged acquisitions, recapitalisations and high yield investments.

Shearson Lehman Hutton advised Spectradyne.

Time stock soars by $8 after bid speculation

By James Buchan in New York

STOCK in Time, the magazine and entertainment group which is trying to merge its business with Warner Communications, rose sharply yesterday as Wall Street speculators bought into the company in the hope of a takeover bid.

But some professional takeover speculators and industry people warned it will be hard for an outsider to derail the $15bn friendly merger between Time and the Warner film, television and record group. Executives of both companies are determined to complete the deal they announced two weeks ago.

Time stock was yesterday morning trading at $119⅝, up $8⅜, on moderately heavy trading. Traders said the demand was set off by reports that Mr Robert Bass, a rich Texas investor who has frequently stalked media companies, was accumulating stock in Time.

Mr Bass's company, based in Fort Worth, refused to comment on the speculation. In the past 18 months, Mr Bass has made a string of successful investments in publishing companies, winning an enthusiastic stock market following.

Last year, the Bass group bought the Bell & Howell publishing company and fought a long battle with Mr Robert Maxwell of the UK for control of Macmillan. Mr Bass also owns 5.8 per cent of the Houghton Mifflin publishing group.

Wall Street investors have complained that the friendly merger, which involves Time issuing large blocks of stock to acquire Warner, is unattractive to Time shareholders who would welcome being bought out for cash.

But one arbitrageur pointed out yesterday that Mr Bass had failed to make the statutory filing in Washington, required under the Hart-Scott-Rodino act for anybody acquiring more than $15m in stock for takeover purposes.

"That means it must be for investment purposes. It means that Bass thinks the stock is cheap and the industry is cheap," the arbitrageur said.

Sematech chief resigns

By Louise Kehoe in San Francisco

A CLASH of personalities between the two top executives at Sematech, the joint industry-government funded US semiconductor industry consortium, has led to the resignation of Mr Paul Castrucci, chief operating officer, and a former IBM executive.

Mr Robert Noyce, Sematech chief executive and co-founder of Intel, said Mr Castrucci's resignation was prompted by differences between them.

Sematech stressed the split was over personality differences rather than issues of substance relating to Sematech's direction.

Sematech, formed 16 months ago, has 14 member companies, including Intel and IBM. It aims to develop advanced semiconductor manufacturing technology to bolster the international competitiveness of the US industry.

IBM said it remained a "staunch supporter of Sematech and Sematech's mission." The resignation of Mr Castrucci, who retired from IBM before joining Sematech, will not in any way change IBM's support for Sematech, it added.

"During the past seven months, it has become apparent that our individual management styles are not compatible," said Mr Noyce.

INTERNATIONAL CAPITAL MARKETS

Deals resurface as CPI fears fade

By Andrew Freeman

THE LATEST consumer price figures from the US eased fears of an imminent rise in interest rates and gave Eurobond syndicate managers breathing space from which they could launch new issues.

There was a steady trickle of deals, most taking advantage of swap transactions into floating-rate US dollars.

Goldman Sachs was the only house sufficiently daring to offer a deal before the US figures were released, a C$100m three-year issue for Compagnie Bancaire which came with a 12 per cent coupon and was priced at 101.30 to yield some 31 basis points over the equivalent Canadian Treasury bond.

The deal had a reasonable reception and was quoted by the lead manager at less 1.30 bid, just inside underwriting fees of 1⅞ per cent.

However, there was criticism from several traders that the launch spread was too tight. A small rally on the Canadian government bond market saw the spread widen slightly to around 33 basis points.

The issue proceeds were swapped into floating-rate US dollars, with swap traders outside the syndicate speculating that in yesterday's conditions a funding rate of around 25 basis points below Libor was possible.

A Goldman Sachs official said that a revised syndication procedure had been adopted for the deal. Goldman guaranteed no deductions from underwriting fees for stabilisation, and gave syndicate members full protection on their allocations as soon as invitations were accepted.

The lead manager was supporting the deal yesterday, as several co-managers which entered the deal for relationship reasons are understood to have sold their bonds straight back.

The coupon on this three-

INTERNATIONAL BONDS

year deal contrasted with that on a two-year issue launched by Union Bank of Switzerland for Nationale-Nederlanden US Holdings, a subsidiary of the Dutch insurance company.

The C$75m bonds came with a 12⅝ per cent coupon and were priced at 101.65 to yield some 15 basis points over the equivalent Canadian Treasury.

The lead manager was quoting the bonds at less 1⅞ bid, a discount equivalent to full underwriting fees. The proceeds were swapped into floating-rate US dollars.

UBS used its new so-called "take and pay" syndication procedure, offering banks a range of allocations and guaranteeing no deductions for stabilisation from underwriting fees.

Both UBS and Goldman Sachs were anxious to focus investors' attention on the high coupons attached to their issues, arguing that retail investors were less concerned with yield. However, there was speculation among other houses that uncertainty might slow retail interest in the paper.

One trader said that if the market fell, the coupons would be superseded by even higher levels, and pointed to Pirelli's recent two-year issue which came with a 12 per cent coupon. "Twelve per cent looked good when it was launched, but those bonds are now trading at less 2¾ bid," he said.

Kidder Peabody launched a $300m two-year deal for General Electric Capital Corporation. The bonds carried a 10½ per cent coupon and were priced at 100.95 to yield some 48 basis points over Treasuries.

The deal, which had a reasonable reception on the back of Swiss demand, followed a very successful domestic issue by General Electric earlier this week.

A General Electric official said the issue was part of the company's funding programme and he would not comment on any possible swap activity. There was unconfirmed talk in London that the issue was swapped into floating-rate US dollars.

Traders said the launch spread was fair, but felt that there was still plenty of two-year US dollar paper in the market following the deluge of issues a few weeks ago. "The lead manager will probably end up owning a lot of this deal," said one new-issue dealer.

Another two-year deal was launched, a $100m issue for Finnish Export Credit (FEK) brought by Mitsubishi Finance International. The bonds carried a 10⅝ per cent coupon and were priced at 101.05 to yield some 51 basis points over Treasuries. The lead manager was quoting the paper at less 1⅞ bid, on fees.

The bonds were priced partly against FEK's existing 9¾ per cent 1991 issue which was trading in the secondary market at a spread of 47 basis points over Treasuries. The issue proceeds were swapped into floating-rate US dollars.

In Germany yesterday, prices were largely unchanged in quiet market conditions. A DM30m four-year issue for Ram Dis Ticaret, the Turkish trading company, was brought by J.P. Morgan. The bonds had an 8½ per cent coupon and were trading at 100¼, above the par issue price.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
General Electric Cap.Corp◆	300	10½	100.95	1991	1⅛/⅝	Kidder Peabody Int.
Finnish Export Credit◆	100	10⅝	101.05	1991	1⅛/⅝	Mitsubishi Finance Int.
Skopbank (Cayman)◆	50	(a)	101.075	1994	1⅞/1¼	DKB International
CANADIAN DOLLARS						
Compagnie Bancaire◆	100	12	101.30	1992	1⅜/⅞	Goldman Sachs Int.
Nat. Nederlanden US◆	75	12⅝	101.65	1991	1⅛/⅝	UBS (Secs)
D-MARKS						
Ram Dis Ticaret(Turkey) ◆	30	8½	100	1993	n/a	J.P. Morgan
SWISS FRANCS						
Escom (South Africa)★★◆	50max	7½	100	1992	n/a	(b)

★★Private placement. ◆Final terms. a) Currency-linked redemption. b) Agent bank - Bank Leu. Amount of issue will be between SFrs30m-50m.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on March 21

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

China Trust Bank opens US base

CHINA TRUST Bank, one of the first Taiwanese private banks to set up on Wall Street, will begin New York operations on March 28, AP-DJ reports.

At a press conference in Taipei, Mr Jeffrey Koo, president of China Trust Company, said the bank's initial capital totalled $10m. The bank planned to double the amount next year.

Mr Koo said that China Trust Bank's move was aimed at providing financial services for local businessmen in response to closer links between Taiwan and the US.

The Taiwan Government eased restrictions on foreign exchange in 1987, encouraging overseas investment. Mr Koo said the company would continue to expand operations in other countries, such as south-east Asia and Europe.

China Trust Company had total asset of T$54.9bn (US$2bn) in 1987. Income before tax for 1987 was T$1.5bn, compared with T$182m in 1986.

Danes to update bond index every 5 minutes

THE Copenhagen stock exchange is to update its new bond index every 15 minutes initially, reducing the time for updates to five minutes by mid-August, Reuter reports.

Three, six and nine-month futures contracts based on the index will start trading on March 29, the exchange said in a statement.

Expiry dates will be the first trading days of April, July, October. Call and put options on the futures contracts will be introduced later, when the liquidity of the underlying futures contracts justifies such a move.

The expiry price of futures and options contracts will be calculated from dealings carried out between 11am and noon local time on expiry day through the CPSE central electronic trading system.

From April 3, the expiry price of instruments based on the key bond, the 9 per cent mortgage bond due 2006, will also be based on trading between 11am and noon local time on expiry day.

The Copenhagen SE bond index will be calculated on the basis of a portfolio of 20 registered bonds, whose average effective yield to maturity will be built into a 20-year annuity bond.

CFTC exempts some members from rules

THE Commodity Futures Trading Commission (CFTC) will exempt selected members of the Montreal exchange from some of its foreign futures and options rules, Reuter reports.

The commission said that compliance with applicable Quebec law and rules of the exchange could be substituted for compliance with the CFTC's own rules.

The rules to be exempted extend existing CFTC customer protection regulations to foreign futures or options products offered or sold to US customers.

The rules cover registration, disclosure, capital adequacy, protection of customer funds, record-keeping and reporting, sales practice and compliance procedures.

The requirements are generally comparable to those applicable to wholly domestic transactions, the CFTC said.

New futures group

MR R. Sean Lapp has resigned as a director of Elders IFFO, part of Elders Futures, to form a new financial futures and options group, writes Our Financial Staff.

Mr Lapp said the new enterprise, which has joined forces with Resource Trading Group and Gerald Financial Group, draws together a team of 30.

COMPANY NOTICES

LEGAL NOTICES

PERSONAL

INTERNATIONAL CAPITAL MARKETS

Treasuries bounce back after US inflation data

By Anatole Kaletsky in New York and Norma Cohen in London

A MODERATE 0.4 per cent increase in the February consumer price index gave US bond investors a welcome respite after the sharp declines that followed the publication of the producer price index last Friday.

Although the CPI figure suggested that underlying inflation in the US economy

GOVERNMENT BONDS

was now running at a rate of 5 to 6 per cent annually, it was at the low end of market expectations and sparked off an immediate recovery in bonds.

Many economists had raised their CPI forecasts following last week's dramatic 1 per cent jump in producer prices. The market's consensus expectation for the CPI had risen by Monday night from 0.5 to 0.6 per cent.

In spite of the better than expected inflation figures, buying interest did not extend much beyond the early morning short-covering and by lunchtime the Treasury's benchmark long bond was up only ¼ at 95⅝. The long bond's yield at this level was 9.30 per cent, identical to last Friday's close.

Shorter maturities did not even manage to recover Monday's losses as gains on most three- to 10-year instruments came to less than 1/16. Yields in this part of the maturity spectrum remained in the 9.6 to 9.8 per cent range.

Federal funds remained virtually motionless in the 9⅞ to 9¾ per cent range and the Federal Reserve did not come into the money market during the morning. Some analysts argued that the central bank was still keeping its options open for a further tightening after the meeting of the Federal Open Market Committee, scheduled for Tuesday next week.

UK government bond prices rose as much as ¾ points in very thin trading, with most of the activity occurring before the formal market opening. Dealers said that market makers had apparently adopted large short positions on Monday evening, bracing themselves against the possibility of adverse news from the US on the inflation front.

However, with activity thin ahead of the long Easter holiday weekend, market makers reconsidered those short positions early yesterday and moved to cover themselves. Later, when the US consumer price index for February showed a rise more modest than expected, dealers again covered short positions, a move encouraged also by the strength of sterling.

The pound rose a full pfennig to close at more than DM3.22. On its trade weighted index, the D-Mark closed at 96.6 against the previous close of 96.1.

IN WEST Germany, government bond prices closed unchanged after losing about ¼ point in early, quiet trade. The Bundesbank announced a fixed-rate repurchase agreement, accepting bids at 5.8 per cent, unchanged from its previous two tenders. The market has come to view such actions as a sign the central bank is not going to tighten monetary policy.

After the US consumer price data, which showed a smaller than expected rise, the markets recovered ground lost earlier in the day.

Markets are awaiting news today of February money supply data, particularly M3, closely monitored by the Bundesbank. It has targeted annualised growth of about 5 per cent. In addition, dealers are awaiting the tender allocation to see if the central bank replaces all of the DM6.2bn expiring.

IN New Zealand, government bond yields eased somewhat in response to the so-called mini-budget proposals issued by Mr David Caygill, Finance Minister, which call for spending cuts and tax increases as a means of reducing government borrowing.

Financial markets reacted cautiously to the announcements which included an increase in government sales tax – the equivalent of VAT – to 12.5 per cent from the current 10 per cent level.

While the increase is likely to cause a one-off boost to New Zealand's consumer price index later this year, markets were generally relieved the increase was not the 15 per cent that some had expected.

Long bonds were also helped by Mr Caygill's announcement that there would be fewer of them issued in the 1989-90 fiscal year, with no quarterly long bond auctions to be held between now and June.

The Government will instead finance itself in the Treasury bills market, leading to some shortage of paper for the next few months.

The benchmark long bond, the 10 per cent bonds due November 1993, closed at 13.18 per cent, down from Monday's close of 13.22 per cent.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	9/92	107-24	-5/32	10.79	10.59	10.43
		9.750	1/98	98-00	-8/32	10.09	9.96	9.78
		9.000	10/08	98-03	-3/32	9.10	9.04	8.89
US TREASURY *		8.875	2/99	95-29	+4/32	9.53	9.35	9.24
		8.875	2/19	95-21	+9/32	9.31	9.14	9.07
JAPAN	No 111	4.600	6/98	96.0412	+0.001	5.24	5.23	4.88
	No 2	5.700	3/07	105.7315	+0.198	5.09	5.05	4.81
GERMANY		6.375	11/98	95.7500	-0.050	6.98	6.96	6.87
FRANCE	BTAN	8.000	1/94	94.8577	-0.143	9.35	9.28	9.30
	OAT	8.125	5/99	93.3500	+0.090	9.14	9.10	9.03
CANADA *		10.250	12/98	97.0000	-0.500	10.75	10.54	10.29
NETHERLANDS		6.7500	10/98	97.3250	-0.150	7.13	7.19	7.07
AUSTRALIA		12.000	7/99	90.9981	+0.382	13.63	13.75	14.18

London closing. *denotes New York morning session
Yields: Local market standard Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

Third World debt traders under siege

The Brady plan threatens a number of niche banking markets. Laura Raun reports

Having catapulted NMB, the big Dutch bank, into world leadership in Third World debt trading, Mr Gerrit Tammes may now have to bury the business to which he gave birth.

The Dutch banker believes the market in buying, selling and swapping Third World debt could dry up in as little as three years if a US plan on debt reduction succeeds.

On the eve of this week's Inter-American Development Bank (IADB) meeting, Mr Nicholas Brady, US Treasury Secretary, explained that the market would shrink if new loans maintained their face value and direct investment replaced bank lending.

The annual meeting of the IADB has offered the first forum for intensive scrutiny of the proposals recently unveiled under the Brady plan. The US proposals, which are being increasingly seen as a significant turning point in the debt crisis, focus on easing debt and debt service burdens and a bigger role for international organisations.

NMB claims about 20 per cent of the $40bn to $50bn market in claims on highly indebted countries, even though the bank is medium-sized on an international scale. Last year its trading volume in Third World debt more than doubled to $8.4bn, from $3.4bn in 1987.

The bank is the biggest debt trader, followed closely by J.P. Morgan, Citibank, Libra Bank and Standard Chartered, according to Libra, which is rapidly climbing up the list. NMB has also pioneered debt-for-nature swaps to help developing countries protect their environment.

Debt trading – or asset trading as it is also known – involves instruments such as conversions (swaps of hard-currency debt bought at a discount for local currency) and debt buy-backs, where debtor countries repurchase their own loans with new bonds at a discount or drastically lower interest rates.

Over the past four years asset trading has wiped out about $25bn of Third World debt. Transparency has improved as standardisation has increased.

Mr Tammes believes asset prices will be boosted over the next two years by the Brady plan, helped particularly by its call for multilateral support in reducing less developed countries' debt. Thereafter, trade will probably dwindle, depending on the plan's success.

Initial market reaction has led to mostly firmer prices, with Mexican paper edging up to about 40 cents on the dollar, although Brazilian debt has slipped to 30 cents.

In future NMB will increasingly concentrate on channelling private funds into Latin America, export finance and "financial engineering," which provides complex money packages for big industrial projects.

But Mr Tammes warns that restoring trust is the biggest challenge. "Latin American governments must prove that there are attractive investment opportunities," he says during an interview in his airy office in NMB's headquarters. "The image must be improved and the debt talk doesn't promote that."

Mr Tammes knows Latin America well, having worked in Brazil and Surinam for nearly 10 years as a manager for an ABN subsidiary. He travelled extensively, cultivating contacts using his fluent Spanish, Portuguese and English.

The 56-year-old executive is the kind of Dutch banker who made Amsterdam the world's premier financial centre in the 17th century. He is sober and sensible, a careful combination of discipline and tolerance, leavened with a warm smile.

Gerrit Tammes: the problem is in finding projects

NMB's move into asset trading seems puzzling at first glance. The bank, the fourth largest in the Netherlands, started out in 1927 by catering to small business. It is still the most domestic of the big Dutch banks.

The Dutch Government owns 7 per cent. But in the Netherlands NMB has always been something of a renegade: more aggressive, less bureaucratic and linked to anthroposophy – an early 20th century spiritual science founded by the Austrian philosopher Rudolf Steiner.

Its unique headquarters, on the outskirts of Amsterdam, is reminiscent of anthroposophic architecture, a testimony to original thinking.

Management flexibility is one of the key reasons that Mr Tammes was allowed to build up the asset trading business, he explains.

"We had a relatively small exposure to Latin American debt when the problem began in 1982," he recounts. "We were more focused on what could be done than on the problem itself."

Good Dutch traders have always preferred pragmatism to passion and Mr Tammes is no exception. The Netherlands also has a long tradition of generously helping poor countries.

Equally decisive was NMB's timely entry into Brazil via Uruguay in 1983. For one peso it bought a virtually bankrupt Uruguayan bank with a branch in São Paulo and now NMB is the only foreign bank with a commercial operating licence in that country.

NMB also has offices in Mexico City, Buenos Aires and Caracas and is buying the Chilean activities of J.P. Morgan. The acquisitions will further strengthen debt trading as well as trade finance and corporate lending.

In asset trading, NMB acts as principal rather than as broker, working with a "small" portfolio, according to Mr Tammes. It makes markets in Latin American, African, eastern European and Far Eastern paper although margins vary widely.

The Dutch bank is also involved in stalled conversion programmes in Brazil, Mexico and Argentina. In the past it has bought discounted Brazilian debt at the official auction through its local brokerage firm and converted it into local currency for use by foreign companies wanting to invest.

But such debt-to-equity swaps will remain limited, Mr Tammes believes, as debtor countries consider them inflationary. Debt buy-backs are more promising if the IADB, International Monetary Fund and World Bank start supporting the discounted bonds.

NMB paved the way for debt swaps when it helped the Netherlands' Development Aid Ministry buy Costa Rican debt and convert it into a reforestation fund.

"The problem is not in finding money but in finding projects. You can't expect Brazil to allow the world to tell it what to do with its Amazon."

To avoid projects with political overtones non-governmental organisations are likely to play a growing role in the selection process. Ultimately, however, private investment must replace bank loans to pull Latin America out of its "lost decade," Mr Tammes feels.

This week Mr Tammes launched an appeal for public/private partnerships to stimulate investment. Creditor countries would cover the local costs with debt swaps into local currency. Private investors would provide fresh money for imports such as capital goods and eventually be able to purchase the government stake.

If investor trust is restored then "conversion" funds, which plant money in locally listed companies, might get a new lease of life, Mr Tammes believes.

As early as 1983 NMB laid the foundation for such debt-for-equity funds but high risks have warded off investors.

Mr Tammes has kept other powder dry for the day when Third World debt trading shrinks. He would then start dealing in discounted US corporate bonds – convertible and warrant-attached varieties – as several financial institutions already do.

"The market is completely different, but the techniques are similar," he says.

Finnish rates rise as central bank moves on markka

FINNISH money market rates rose slightly yesterday following the Bank of Finland's decision last Friday to allow the markka to be effectively upvalued, writes Our Financial Staff.

The central bank's three-month Helibor interest rate rose to 11.95 per cent from 11.03 per cent.

It stood at 10.5 per cent before last week's currency moves.

On Friday the central bank lowered by about 4 per cent the limits within which the value of the markka can fluctuate, in an attempt to check a rapidly overheating economy. Against 101.7 at the end of January, the markka inverse index closed yesterday at 98.5 per cent.

Traders in Helsinki said that interest rates would soften were it not for pressure from the central bank. "This is a domestic inflation policy measure," one dealer claimed.

Last week, the Bank of Finland said raising the external value of the markka was the only fast and effective means of cooling consumer demand, which last year led to a 25 per cent jump in bank lending. In recent months the Finnish CPI has pushed up to 6 per cent year-on-year. The Bank of Finland *has already said it wants to limit* growth in bank lending this year to a maximum of 11 per cent.

The next set of inflation figures, for March, are due in the middle of next month.

The Research Institute of the Finnish Economy said that the revaluation and accompanying government moves to raise sales tax and employers' national insurance contributions would reduce the growth in GNP to 3.5 per cent, from a forecast 4 per cent in 1989.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

	EQUITY GROUPS & SUB-SECTIONS. Figures in parentheses show number of stocks per section	Tuesday March 21 1989: Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1989 to date	Mon Mar 20: Index No.	Fri Mar 17: Index No.	Thu Mar 16: Index No.	Year ago (approx): Index No.
1	CAPITAL GOODS (207)	947.21	+1.1	10.27	3.93	12.01	3.05	936.68	949.24	966.57	774.80
2	Building Materials (28)	1195.10	+1.4	10.72	3.87	11.40	0.98	1178.48	1199.72	1220.11	1045.94
3	Contracting, Construction (38)	1771.51	+0.9	11.31	3.60	11.52	4.49	1755.69	1773.43	1796.50	1623.61
4	Electricals (10)	2789.43	+0.7	8.11	4.20	14.72	1.47	2769.61	2800.71	2854.97	2479.11
5	Electronics (30)	2121.09	+1.3	8.90	3.15	14.57	12.07	2095.15	2126.72	2163.23	1541.60
6	Mechanical Engineering (55)	505.95	+1.2	10.07	3.90	12.11	1.15	499.83	505.98	515.39	401.77
8	Metals and Metal Forming (7)	536.53	+0.5	14.30	5.49	7.90	0.00	534.01	538.92	546.94	468.58
9	Motors (17)	310.43	+0.6	11.78	4.82	9.89	3.23	308.48	313.17	318.74	284.81
10	Other Industrial Materials (22)	1585.83	+1.2	9.16	4.20	13.00	4.62	1567.10	1583.47	1611.05	1284.12
21	CONSUMER GROUP (186)	1168.92	+0.5	8.93	3.67	14.03	3.84	1163.19	1170.12	1196.84	1078.50
22	Brewers and Distillers (22)	1285.42	-1.7	9.72	3.46	13.00	5.20	1307.29	1308.21	1345.57	1084.37
25	Food Manufacturing (20)	1020.16	+0.7	9.36	3.99	13.31	5.62	1013.46	1025.04	1044.93	845.46
26	Food Retailing (15)	1966.69	+1.2	9.22	3.56	14.20	8.25	1944.22	1955.65	2014.99	2135.32
27	Health and Household (13)	2151.30	+1.4	6.55	2.68	17.45	0.59	2121.97	2135.39	2179.91	1867.77
29	Leisure (33)	1619.67	+0.8	7.41	3.29	16.96	12.33	1607.11	1625.81	1655.65	1306.37
31	Packaging & Paper (17)	585.88	+0.8	9.57	3.99	12.89	1.24	581.02	588.04	601.76	514.80
32	Publishing & Printing (18)	3681.97	+0.9	8.50	4.27	14.59	3.92	3648.66	3675.00	3769.04	3607.86
34	Stores (33)	771.96	+0.6	11.00	4.49	11.96	1.64	766.99	767.78	783.57	846.88
35	Textiles (15)	516.98	+0.6	12.01	5.43	10.11	0.25	513.73	514.25	522.40	585.46
40	OTHER GROUPS (94)	1063.69	+1.0	10.00	4.16	12.21	4.23	1052.92	1065.57	1088.33	988.86
41	Agencies (18)	1261.30	-1.3	8.45	2.67	15.15	10.61	1278.31	1299.94	1321.61	1281.76
42	Chemicals (22)	1201.88	+1.1	11.00	4.85	10.85	18.67	1188.22	1197.33	1211.28	1044.97
43	Conglomerates (11)	1502.60	+1.0	10.16	4.86	11.37	4.27	1488.40	1510.63	1537.65	1198.92
45	Shipping and Transport (13)	2358.85	+0.5	8.50	3.60	15.09	0.00	2346.38	2377.67	2425.89	1980.87
47	Telephone Networks (2)	1110.13	+1.7	10.50	4.23	12.29	0.00	1091.70	1109.06	1142.66	991.67
48	*Miscellaneous (28)*	1490.92	+1.2	9.51	3.65	11.97	0.92	1473.39	1480.91	1515.05	1283.90
49	INDUSTRIAL GROUP (487)	1103.91	+0.8	9.59	3.88	12.88	3.82	1094.93	1105.62	1128.97	964.82
51	Oil & Gas (13)	1994.16	+0.2	9.59	5.56	13.35	40.39	1989.35	2011.48	2020.43	1840.58
59	500 SHARE INDEX (500)	1179.39	+0.7	9.59	4.10	12.94	6.72	1170.60	1182.32	1204.70	1038.88
61	FINANCIAL GROUP (126)	751.98	+1.0	–	4.99	–	8.33	744.74	748.48	759.20	604.10
62	Banks (8)	735.21	+0.7	22.99	6.48	5.67	18.41	729.77	733.71	745.11	668.20
65	Insurance (Life) (8)	1116.64	+3.4	–	5.24	–	0.00	1079.87	1091.40	1107.57	1003.96
66	Insurance (Composite) (7)	596.54	+1.2	–	5.37	–	6.78	589.55	591.25	599.35	533.64
67	Insurance (Brokers) (7)	969.15	-0.7	8.71	6.36	15.31	15.60	976.44	986.43	987.12	856.54
68	Merchant Banks (11)	335.90	-1.2	–	4.46	–	0.50	340.04	342.20	344.14	357.30
69	Property (53)	1332.42	+1.0	5.52	2.56	23.06	1.96	1319.67	1322.29	1345.00	1142.75
70	Other Financial (32)	380.93	-0.2	9.39	5.39	13.38	1.92	381.65	384.10	387.53	401.57
71	Investment Trusts (73)	1084.49	+0.3	–	2.89	–	6.18	1080.82	1092.83	1111.82	886.51
81	Mining Finance (2)	676.96	+0.6	8.56	3.19	12.90	2.50	672.65	676.61	677.37	463.29
91	Overseas Traders (8)	1400.45	+0.6	8.43	4.77	13.86	15.65	1392.64	1398.47	1405.49	1033.11
99	ALL-SHARE INDEX (709)	1075.12	+0.8	–	4.19	–	7.02	1067.00	1076.71	1095.79	944.87

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Mar 20	Mar 17	Mar 16	Mar 15	Mar 14	Year ago
FT-SE 100 SHARE INDEX‡	2072.2	+18.6	2074.6	2053.4	2053.6	2073.1	2112.6	2121.2	2125.4	1835.4

FIXED INTEREST

	PRICE INDICES	Tue Mar 21	Day's change %	Mon Mar 20	xd adj. today	xd adj. 1989 to date
	British Government					
1	5 years	117.78	+0.18	117.58	–	3.37
2	5-15 years	135.44	+0.28	135.36	0.30	2.61
3	Over 15 years	146.98	+0.18	146.72	–	4.56
4	Irredeemables	175.13	+0.02	175.09	–	1.51
5	All stocks	132.47	+0.23	132.32	0.16	3.14
	Index-Linked					
6	5 years	132.76	+0.12	132.59	–	1.36
7	Over 5 years	134.23	+0.27	133.88	–	0.95
8	All stocks	134.05	+0.26	133.70	–	0.95
9	Debentures & Loans	118.06	+0.01	118.05	–	2.14
10	Preference	89.74	-0.16	89.88	–	1.12

	AVERAGE GROSS REDEMPTION YIELDS		Tue Mar 21	Mon Mar 20	Year ago (approx.)
	British Government				
1	Low	5 years	9.44	9.44	8.63
2	Coupons	15 years	9.02	9.02	9.09
3		25 years	8.85	8.85	8.95
4	Medium	5 years	10.44	10.51	9.13
5	Coupons	15 years	9.45	9.48	9.27
6		25 years	9.02	9.03	9.11
7	High	5 years	10.56	10.63	9.22
8	Coupons	15 years	9.67	9.70	9.42
9		25 years	9.20	9.21	9.17
10	Irredeemables†		8.80	8.80	8.94
	Index-Linked				
11	Inflation rate 5%	5yrs.	3.35	3.39	2.62
12	Inflation rate 5%	Over 5 yrs.	3.47	3.48	3.83
13	Inflation rate 10%	5 yrs.	2.54	2.57	1.72
14	Inflation rate 10%	Over 5 yrs.	3.31	3.33	3.68
15	Debs &	5 years	12.21	12.17	10.86
16	Loans	15 years	11.33	11.34	10.73
17		25 years	10.72	10.73	10.73
18	Preference†		10.03	10.02	10.44

‡Opening index 2060.8; 10 am 2058.9; 11 am 2062.5; Noon 2061.6; 1 pm 2061.6; 2 pm 2066.5; 3 pm 2071.7; 4 pm 2070.8; 4.05 pm 2070.5
(a) 2.46pm (b) 9.14am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 34p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	88	5	16
Corporations, Dominion and Foreign Bonds	19	1	24
Industrials	516	278	782
Financial and Properties	194	103	369
Oils	32	18	48
Plantations	0	1	11
Mines	41	48	94
Others	32	115	88
Totals	922	569	1,432

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. date	1989 High	1989 Low	Stock	Closing Price	+or-	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
155	F.P.	-	171	155	Assoc. British Cystis 20p	166		R5.25	2.7	4.2	10.3
245	F.P.	-	361	243	Compass Group 5p	358		R7.2	2.7	2.7	18.5
100	F.P.	-	120	108	Europa Minerals 2p	118		b1.0	-	1.1	-
†	F.P.	-	95	70	*Hoskins Brewery 50p	95		-	-	-	-
47	F.P.	-	49	42	*Malaya Group 10p	42	-2	R2.0	3.7	6.3	5.7
†	F.P.	14/4	269	250	NFC Var. Vtg. 5p	255		a7.0	1.8	3.8	18.0
52	F.P.	-	78	52	[illegible] 5p	74	-4	R2.0	2.4	3.6	13.1
69	F.P.	-	80	69	RR & V Info. Systs. NV 5c	76		Q2.3c	9.1	0.9	12.9
125	F.P.	-	163	143	Ross Catherall 10p	158		R4.4	2.9	3.8	12.1
185	F.P.	-	213	195	Wood (Graham)	213		R7.7	2.6	4.8	7.9

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price £	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
97.10	£30	-	30¼	28¾	Tops Ests. 10¾pc 1st Mtg Db 2011/16	28¾	-⅛

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price p	+or-
45	Nil	-	3pm	1pm	Cullens Hldgs.	1pm	-¼
55	Nil	-	105pm	63pm	Glamar Group 10p	80pm	
76	Nil	-	7pm	6pm	Hampden Homecare	6pm	
375	Nil	-	92pm	76pm	LASMO	77pm	-2
250	Nil	-	185pm	168pm	*ML Laboratories 1p	168pm	
100	Nil	-	44pm	25pm	Noble Raredon	34pm	+2
kr100p	Nil	-	70pm	65pm	Power Corp. kr10p	70pm	
45	Nil	-	20pm	11pm	‡Spice 5p	13pm	
220	Nil	-	46pm	38pm	Stanley Leisure Grp.	38pm	-2
370	Nil	-	60pm	51pm	Watmoughs	51pm	-2

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ‡ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ‡ Unlisted securities market. ‡ Official London listing. □ Including warrants entitlement. * Third Market.

TRADITIONAL OPTIONS

- First Dealings Jan 23
- Last Dealings Feb 3
- Last Declarations May 4
- For settlement May 15

For rate indications see end of London Share Service

Calls in: Control Securities, Bula Resources, Scottish & Newcastle, C Baynes, Rosehaugh, Assoc. British Eng'g, British & Commonwealth, S G Warburg, Conroy Petroleum, EBC, Pentland Inds, Amstrad, Saatchi & Saatchi and Ivory. Puts in: Saatchi & Saatchi.

LONDON TRADED OPTIONS

SCOTTISH & NEWCASTLE, the Edinburgh based breweries concern, found high attention in the London Traded Options Market yesterday, against the background of a report from the Monopolies and Mergers Commission, rejecting the bid for its from Elders, the Australian concern with multiple interests.

The Commission did not leave the breweries section of the options market alone at that, however. It also delivered a report on the tied house system, which, in market terms, struck at Allied Lyons. Scottish & Newcastle fell no less than 89p on the underlying market to 329p. Allied Lyons lost 14p to 458p.

The business in breweries option enlivened what might have been a dull day in the market, had it not been for British Gas running away from all stocks in terms of the day's turnover. Business in Gas came to 5,977 contracts, consisting of 5,277 calls and only 700 puts. The underlying share price gained 1p to 181p, against the background of the announcement that its cost restructuring was likely to be less than the market had thought.

The Scottish & Newcastle options business was comprised in 2,005 contracts, of which 1,549 were call and 456 put. The main interest in it was in the March 380 calls, which attracted 673 contracts, but an opening of interest of only 80 contracts to 2,365.

Allied Lyons saw 2,257 contracts traded, covering 1,698 calls and 559 puts. The most actively traded series was the April 460 call, which found 937 contracts, about half of which represented opening of interest. At the end of the day, the open interest in the series stood at 3,655, against the previous 3,243.

Index trading, in the FT-SE 100, showed a further recovery from recent low levels, to reached a little more than the 25 per cent which its had come to expect almost of right. Calls in it came to 4,686 contracts, and puts to 2,853.

British Steel, BAT and BP were also active, as was Dixons, while some activity was seen in Hanson.

Option		Calls Apr	Calls Jul	Calls Oct	Puts Apr	Puts Jul	Puts Oct
Allied Lyons (*456)	420	38	52	-	2	10	-
	460	10	28	40	14	26	34
Brit. Airways (*193)	180	17	22	26	2	8	9
	200	4	11	16	10	18	20
	220	1½	6	10	29	33	35
Brit Com (*211)	200	16	22	-	3	7	-
	220	5	12	19	13	18	19
	240	2	7	11	32	35	35
Boots (*257)	240	29	38	45	1	5½	8
	260	12	22	33	4	12	15
	280	4	13	22	16	22	25
Trafalgar (*359)	330	32	40	50	3	10	14
	360	11	22	32	11	22	26
Utd Biscuits (*317)	280	40	48	55	¼	6	7
	300	21	34	42	2½	12	14
	330	6	17	26	17	28	29
Ultramar (*289)	280	-	38	48	-	17	24
	294	13	-	-	15	-	-
	300	-	28	38	-	25	33
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option		Calls Apr	Calls Aug	Calls Nov	Puts Apr	Puts Aug	Puts Nov
GEC	220	17	32	38	2½	9	11
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option		Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
Amstrad (*149)	140	11	20	25	1½	7	8
	160	3½	12	14	[illegible]	[illegible]	[illegible]
	180	1	4½	8½	[illegible]	[illegible]	[illegible]
Barclays (*424)	390	47	62	72	½	2	7
	420	18	38	48	2	9	14
	460	1	13	25	[illegible]	[illegible]	[illegible]
Blue Circle (*332)	300	34	44	64	2½	16	24
	[illegible]	4	19	36	22	40	46
	[illegible]	2	10	16	70	80	82
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK COMPANY NEWS

Wimpey achieves twin objectives set five years ago

Profits jump by 51% to near £150m

By Andrew Taylor, Construction Correspondent

GEORGE WIMPEY, the UK *construction group* and Britain's second largest housebuilder, yesterday reported a 51 per cent jump in profits to £144.5m pre-tax for the 12 months to the end of December.

Turnover increased from £1.48bn to £1.78bn and earnings per share rose by 31 per cent to 32.8p. A final dividend of 6.25p (4.75p) makes a total of 9.25p (6.75p) for the year.

The group also announced the purchase of two large limestone quarries near Baltimore and Washington, in north east of the US. The purchase price, including an earlier acquisition of Baltimore Asphalt, was about $100m – the largest share of which will have been for the quarries.

These have contracts to supply the Bethlehem steelworks in Pennsylvania and Maryland, and have reserves of about 300m tonnes producing about 5.5m tonnes a year.

Sir Clifford Chetwood, chairman and chief executive, said Wimpey last year had achieved its twin objectives, set five years ago, of earning a 20 per *cent return on capital and* making pre-tax profits of more than £100m.

The targets were achieved *without* any assistance from property profits which tumbled from £20m in 1987 to £600,000 last year. Sir Clifford said property sales which had been expected in 1988 would take place this year. Profits had been reduced further by provisions of £7.4m against properties in Rotterdam and Monaco.

Wimpey refused to reveal the profits split from its housebuilding and contracting divisions but the *star* performer must have been UK housing where profits could have been about £100m based on last year's 9,000 sales at an average price of £59,207.

A little of the gloss has gone *off* housing since the UK market peaked last summer – Wimpey was expecting to sell around 8,000 *homes* this year. Sir Clifford said UK housebuilding so far was ahead of target. A 12 per cent decline in sales in the south east was more than compensated for by gains in the north of the country.

Profits from US housebuilding, particularly in California where Wimpey is strong, also rose *sharply last year. House*building in Australia also increased last year and like *California, remained a strong* market.

Sir Clifford expected to see further growth from Wimpey's expanding US aggregates business with the new quarries *forecast to produce a return of* at least 15 per cent pre-tax in their first year.

The contracting division, which has been benefiting from the sharp rise in UK construction work in the last two years, increased its order book by 30 per cent to £1.2bn by the end of last year. Prospects for *international construction* had also improved, said Sir Clifford.

Alan Harper

Sir Clifford Chetwood – further growth expected from the expanding US aggregates business

● **COMMENT**

The focus of attention at Wimpey in the next few years is likely to turn from UK housebuilding which still accounts for more than two thirds of profits, to Wimpey's other interests. A number of major property developments are due to come on stream in the early 1990s. Meanwhile, property sales this year should offset any softening in the housing market. *Contracting also* looks a better bet these days. Margins are hardening and will have been assisted by Wimpey's emphasis on negotiating contracts. About 35 per cent of contracts currently are negotiated. *British firms have done* well out of US aggregates in recent years. Wimpey believes it is particularly well placed in the north east where investment in road repairs, due to the climate, is higher. Pre-tax *profits of £170m would put* Wimpey on a p/e of 8, a rating which if it is to be judged as a UK housebuilder would leave little room for further improvement. If Wimpey is to be valued for its other interests, including overseas *housebuilding* and US and UK aggregates, it looks cheap.

GRE joint Italian venture

By Nick Bunker

A PIONEERING joint venture between a British insurance *company and an Italian financial* institution was launched officially yesterday when London's Guardian Royal Exchange *said* it had *signed* an agreement with a Turin bank to buy jointly three Italian insurers.

Details of GRE's agreement with Istituto Bancario San Paolo di Torino leaked out in Italy last week. It emerged publicly last Friday that they *were to buy three insurance* companies, Sipea, Cidas and Polaris Vita.

GRE said *its* share of the cost of the acquisitions would be L62.5bn (£27m). It will also inject up to L40bn (£17m) into *Sipea and Cidas, which are primarily* motor insurers selling via exclusive agents in the middle and south of Italy. Immediate plans were to "widen their base of business and broaden their geographical *spread to the rest of Italy.*"

The chairman and two board members of Sipea and Cidas, will come from GRE, which will own 51 per cent of them. GRE will have two places on the board of Polaris Vita, a *small life insurer. It will* be 51 per cent owned by San Paolo and 49 per cent by GRE.

Rights as Audio swings into the red

By Vanessa Houlder

AUDIO FIDELITY, the troubled consumer products company that dismissed its chairman in January, yesterday announced a £1.94m rights issue and a large swing into the red.

It also announced that it was taking legal advice over a £527,000 accounting discrepancy that has been the subject of an investigation by Stoy Hayward.

Mr Stephen Goldberg, who was chairman and joint managing director until his dis*missal in January, complained* yesterday that he was being made a scapegoat. "To lay the blame on my doorstep is, in my opinion, ridiculous," he said.

Pre-tax losses for the six months to end-December *totalled £2.34m, compared* with a £380,000 profit for the previous period. An extraordinary item of £1.16m resulted in a total retained loss of £3.5m.

The shares plunged from 129p to 53p following the lifting of the suspension which was imposed when the investigation was announced in January.

The accounting discrepancy stemmed from £527,000 of profits and provisions, which were wrongly *allocated to* the prior year. Mr Goldberg yesterday complained that he had not been asked to contribute to the investigation, although this was denied by the company.

The company blamed much of the losses on a lack of management and financial controls. In addition, it incurred exceptional losses of £783,000 as a result of stock write-downs, bad debts and the re-assessment of asset values including development expenditure.

The extraordinary losses resulted from discontinued activities, particularly in the *electronics division* and the "substantial" costs of the Stoy Hayward investigation.

The group's audio division is to be sold following a "disappointing", although profitable, performance in the period. Mr *Goldberg said yesterday that* he considered the division had an excellent future and he intended to submit a bid of £2.35m.

The rights issue, on a 7-for-8 basis at 30p per share, will be used to raise £1.8m to repay bank borrowings and a further £340,000 to supplement working capital. The need for the issue was highlighted by the disclosure that net assets in the period were less than half called-up share capital.

The loss per share was 29.1p (earnings 5.4p).

DIVIDENDS ANNOUNCED

Allied Partners ......fin	1†	–	1	1.75	1.5
Audio Fidelity ......int	nil	-	0.25	-	1.5
Banner Homes § ....fin	1.7	Apr 28	1.3	2.8	1.3
Bemrose ......fin	7	May 26	6.5	.11	10
Benchmark Group ...int	0.75	May 18	0.75	-	1.625
Bowthorpe ......fin	2.74	-	2.227	4	3.277
BSG Intl ......fin	2.34†	July 3	1.4	3	2
Bunzl ......fin	3.3	July 1	2.9	5.7	5
Burford Hldgs § ......fin	0.281†	May 2	0.219	0.5	0.219
Burton Group ......int	2.8	July 21	2.4	-	8.4
Christies Intl ......fin	15	-	10	19	13
Dauphin ......fin	2.7	May 22	2.5	4	3.65
Dean & Bowes § ....fin	3†	May 31	2.5	5	4
Delta ......fin	7.8	June 1	6.1	11.2	9
Desoutter Bros ......fin	8	May 6	6.4	11	9.1
Eadie Holdings §....fin	1.1†	-	0.75	2	1.5
Federated Hsing ....fin	5	-	3.3	7.5	5
Geest ......fin	2.75	-	2.1	5	4
GR (Holdings) ......int	0.4	May 16	0.4	-	2
Hall Engineering ....fin	8.9	May 12	7.4	14.4	12
Hall Homes § ......fin	4	May 22	2.55	6	3.75
Hambro C'wide ....fin	1.5†☆	-	1.75	2.6	2.6
Handley-Walker §....fin	3.8	May 18	-	5.4	-
Hepworth ......fin	7.9	July 3	6.3	12.05	9.9
Hewitt (J) ......fin	1	May 17	4	2	5
Iceland Foods ......fin	3.55†	May 19	2.9	5.25	4.35
Jacobs (John I) ....fin	2.8	-	2.7	4.3	4.2
Johnson Cleaners....fin	17.9	May 4	14.3	23.1	18.6
Kalon Group ......fin	0.7	-	nil	1	nil
Kwik-Fit ......fin	1.36†	-	1.067*	2.4	1.9*
Laing Props ......fin	5.75	-	5	10.25	9
Law Debenture ......fin	6.45	-	5.25	10.2	8.5
Linread ......fin	3.25	-	2.5	4.75	3.75
London & Metro ....fin	4.25†	-	3.25	6.2	4.75
Morrison (Wm) ......fin	1.75	-	1.5	2.3	2
Paterson Zoch ......int	1.95	May 4	1.85	-	7.8
Peek ......fin	1†	-	0.3	1.3	0.3
Plaxton ......fin	3.1	-	3	6.22	4.5
Propeller § ......fin	0.5	May 31	-	0.5	-
Prudential ......fin	5.3†☆	-	4.5	8	6.8
River & Merc ......fin	1.5	May 17	-	8.4	-
Royal Sovereign....fin	4.3	May 25	3.8	5.5	4.8
Sharpe & Fisher ....fin	nil◆	-	3	1	4
Stampton IOW ......fin	15	May 10	17	24	22
TIP Europe ......int	1.6†	-	-	-	2.8
Trinity Intl ......fin	4.2	Apr 28	3.8	6	5
Western Motor ......fin	8.5	-	5	12	5
Wimpey (George)....fin	6.25	May 15	4.75	9.25	6.75
World Leather § ....fin	3.7	May 15	3.2	4.5	3.2

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ¶Third market. ☆Carries scrip option. ‡For 15 months. ◆No final as forecast but shareholders received 160p following restructure and have been promised dividends totalling not less than 4p for 1989.

UK COMPANY NEWS

Hambro Countrywide dividend cut

By Philip Coggan

THE DEPRESSED UK residential property market has prompted Hambro Countrywide, the estate agency and financial services group, to cut its final dividend as 1988's preliminary pre-tax profits fell by 14.5 per cent and earnings per share dropped by 28 per cent.

Second half pre-tax profits more than halved to £7.03m (£14.18m) making a total for the year of £21.3m (£24.9m). Earnings per share were 5.13p (7.11p). The company is reducing its final dividend to 1.5p (1.75p), making a maintained total of 2.6p.

The company shed around 100 jobs at Bairstow Eves, the north London estate agents, last November. Hambro Countrywide said that staffing levels had been reduced but not to the extent that service to the customers would be damaged if the market improved.

Mr Christopher Sporborg, chairman, said that "for there to be an early and orderly restoration of more normal trading conditions, vendors must be prepared to sell at more realistic prices. Without a marginal fall in house prices it will be some time before rising incomes and lower interest rates bridge the differential between what buyers can afford and what vendors are asking".

During 1988, the company sold 71,000 homes and completed 29,380 mortgages representing over £1.2bn of finance. Mr Sporborg said that Hambro Guardian, the newly launched life assurance company, was developing new products, distribution channels and a customer marketing data base.

Turnover for the year was £121.3m (£95.2m) and tax was £8.34m (£9.06m).

● COMMENT

The main surprise about these figures was that the shares only fell 4p to 52p. The immediate outlook for Hambro Countrywide is almost unremittingly gloomy: there has been no sign of any pick-up in orders in the early months of 1989 and of course the bulk of the financial business, providing mortgages, is geared to the strength of house sales. Few economic forecasters are expecting Mr Lawson to cut interest rates much before the autumn and some fear rates may have to rise yet again if the trade or inflation figures fail to improve. Given that, the housing market is likely to remain inactive for some time. Hambro Countrywide's second half profits of £7m are the more realistic guide for 1989 than last year's figures; if the company makes pre-tax profits of £13m in the full year, then the shares look dreadfully overvalued on a prospective p/e of 18.

Mild weather limits Kwik-Fit to £18m

By John Thornhill

A MILD WINTER failed to give Kwik-Fit Holdings, the car parts specialist, its "normal seasonal sales uplift" and held pre-tax profits to £18.45m in the year to February 28 1989, a 15 per cent advance on the previous £16m.

Mr Tom Farmer, chairman, said that while trading margins had been maintained or increased across all product categories, exhaust sales had declined because of the weather. He added that the higher quality of original equipment fitted by manufacturers and the deferral of tyre and battery purchases also upset expectations of higher profits.

Sales increased by 25 per cent to £157.37m (£125.5m). Earnings per share fell from an adjusted 12.29p to 12.09p. A final dividend of 1.36p was proposed making a total of 2.4p (1.86p adjusted).

Kwik-Fit accelerated its expansion programme opening 103 centres during the year, most in the second half, although none contributed to results. The group now has 411 outlets in the UK (including one joint venture in Northern Ireland), 63 in Holland and Belgium and 44 in France.

● COMMENT

Kwik-Fit could do with a quick fix in the weather. Mild spells do not make its workers sing and dance with joy as they on the television commercial. Mr Farmer estimates that the company lost almost £2.5m in profits because of the clement conditions. More worrying for Kwik-Fit, if not for the rest of us, is that car manufacturers are making better quality exhaust systems, reducing the need for motorists to replace them. Despite these concerns, the company would still seem to have a lot of growth left in it. More outlets will start delivering profits this year and further expansion will be possible on the Continent. Other services are also being introduced in its centres which seems a wise hedging measure should car technology continue to improve markedly; although, conversely, more complicated exhaust systems do produce higher margins. The current year will be one of consolidation and profits may pick up only to about £20m, placing the company on a prospective p/e ratio of about 13. This is a high rating which puts Kwik-Fit more in line with the retail sector than the motor industry. Some may feel that this is unjustified and the share price may slip to reflect this revaluation. But in the longer-term, Kwik-Fit's prospects look most impressive, especially if it snows.

Johnson Cleaners boosted to £18.47m

By John Ridding

ACQUISITIONS, stronger margins and property sales helped boost profits at Johnson Group Cleaners by 59 per cent in 1988.

Pre-tax profits increased from £11.61m to £18.47m on turnover up 22 per cent to £124.33m (£101.81m). Earnings increased to 60.09p (38.98p). The second interim dividend of 17.9p makes 23.1p (18.6p).

Mr Phillip Bollom, chairman, said that Johnson had continued to pursue its strategy of organic growth and selective acquisition.

All divisions performed strongly. The UK dry cleaning business benefited from rationalisation measures, including the closure of some of its smaller shops, and from buoyant demand. There was also marked growth in its UK textile rental business.

The group's US activities also expanded during 1988, notably as a result of the purchase in June of Dryclean USA. In the second half this business added around £1.5m to profits, exceeding its budget. Mr Bollom said that the group's six other US businesses also performed well and that around 32 per cent of turnover now came from the US.

Benefits also accrued from the suspension of the group's contributions to its pension schemes and from higher margins.

● COMMENT

Johnson's results came in way ahead of city expectations which had been in the region of £15.5m and sent the share price up 21p to 601p. Even excluding proceeds from acquisitions, property sales and the pension holiday, turnover was up by 13 per cent and profits by around 40 per cent. 1989 has also started well with strong sales in the first two months and the year should also see reduced losses arising from exchange rate conversions. More broadly, the US dry cleaning market, which is estimated at about £2.35bn, offers plenty of growth potential and the acquisition of Dryclean USA provides a useful base and expertise for further expansion there. UK opportunities are perhaps less exciting since the group already accounts for about a quarter of the market. However, there is scope for organic growth through further productivity gains in the dry cleaning business and analysts also expect continued expansion in the textile rental business area. The likelihood of further acquisitions complicates forecasts but estimates in the region of £21m seem reasonable giving a prospective multiple of around 9.5 fully diluted.

News Digest

BEMROSE

Confident after 13% profit rise

TAXABLE profits at Bemrose Corporation, the Derby-based specialist printer, expanded 13 per cent in 1988, from £4.83m to £5.48m. Turnover was ahead 8 per cent to £47.26m.

Mr David Wigglesworth, group chief executive, said that Bemrose Security Printing and Henry Booth both had made a good start to the current year.

Earnings per share improved to 24.43p (22.56p), and a proposed final dividend of 7p makes 11p (10p) for the year.

An extraordinary credit of £6.37m (£163,000) comprised the net surplus arising on disposal of Bemrose USA and Wiljon.

ROYAL SOVEREIGN

Export growth boosts profits

A strong performance from Royal Sovereign stationery and greatly expanded export activity were behind a 58 per cent rise in pre-tax profits to £1.48m, against £935,000, at Royal Sovereign Group.

Turnover in 1988 for this third market company was £12.34m (£5.97m). Earnings per share were 16.7p (16.1p) and a final dividend of 4.3p (3.8p) is proposed making a total of 5.5p (4.6p).

Mr Terry Dickinson, chairman, said the company had developed a clear strategy based around a number of core business assembled during the last two years.

The contribution from investment income and dealing, which had been discontinued, fell from £301,000 to £26,000.

PROPELLER

Order books well ahead

Propeller, Third Market-quoted leisure wear specialist, reported a 68 per cent increase in pre-tax profits to £703,000 for the year to February 3 1989. The advance was achieved on turnover £3.42m ahead at £9.46m.

Earnings improved to 5.53p (3.34p) and a maiden dividend of 0.5p is proposed.

Mr Mike Keen, chairman, said the current year had started well with order books considerably up on last year. He also said the company was at an advanced stage for an early introduction on to the Unlisted Securities Market.

BURFORD HOLDINGS

Profits improve to £1.41m

In its first set of results since the acquisition of the Burford Group and its subsequent name change from Chartsearch to Burford Holdings, the USM-quoted company reported pre-tax profits of £1.41m for the year to December 1988.

The result was struck on turnover of £12.7m and compares with pre-tax profits of £1.02m from turnover of £6.22m in 1987, restated to take account of a change in accounting policy concerning the treatment of goodwill.

Tax took £476,000 (£64,000) after which earnings per 1p share were left at 1.9p (2.7p). A final dividend of 0.281p making 0.5p is proposed.

There was an unrealised investment property surplus of £9.41m (nil) equal to a total pre-tax investment property surplus per share of 7.8p. Net asset value per share rose from 5.9p to 59.6p.

ARAN ENERGY

Operating profits fall

Net profits at Aran Energy, a Dublin-based oil and gas exploration and production company, rose from I£2.5m to I£2.75m (£2.29m) in 1988.

The increase arose from a higher level of tax recoveries and interest income which offset a sharp decline in operating profits.

Earnings per 20p share were 1.88p (1.65p).

DEAN & BOWES

Sharp advance to record £1.4m

Dean & Bowes Group, the enlarged design and refurbishment contractor, raised its profits from £926,000 to a record £1.38m pre-tax for the 1988 year. Turnover expanded by 78 per cent to £13.46m.

The USM-quoted group achieved a substantial increase in market share during the year via the acquisition of TFL and currently has an order book worth some £10m.

Earnings for 1988 worked through at 11.33p (8.65p) and a final dividend of 3p raises the total by 1p to 5p.

DAUPHIN

Well placed for organic growth

Dauphin, the seating and specialist engineering group, lifted taxable profits some 25 per cent to £3.6m in 1988. Turnover was ahead from £12.32m to £16.42m.

Mr Alec Waddicor, chairman, said the group was well placed for further organic growth in expanding markets. Suitable acquisitions were being sought to broaden the group's base, he added.

Earnings per share expanded to 11.01p (9.27p) and a recommended final dividend of 2.7p gives a total of 4p (3.65p) for the year.

CAIRN ENERGY

Listing costs leave loss

Cairn Energy, an independent oil and gas producer which obtained a listing at the end of last year, reported a pre-tax profit of £119,600 for the half year ended December 31 1988, compared with £94,130 in the year to the end of June 1988.

Listing expenses of £152,916 left a loss for the period of £32,951. Turnover was £146,339 (£151,756) and stated earnings per share were 1.71p (1.45p).

The company said that its development as an operator had proceeded smoothly. In 1989 the company would have the benefit of the cash flow from CP (Oil and Gas) the private UK company it purchased for £7.5m last November.

BUSINESS MORT

Nykredit buys 14.8% stake

Nykredit of Denmark has acquired a substantial interest in Business Mortgages Trust with the purchase of 1.7m BMT ordinary shares, bringing its total holding of BMT ordinary to 2.22m.

This represents 14.8 per cent of the issued ordinary share capital of BMT.

Nykredit now intends to increase its holding in BMT to 18.1 per cent by the acquisition of a further 500,000 BMT ordinary shares subject to obtaining the necessary permission under the Banking Act 1987.

Finance, Land and General Holdings sold its entire holding of 2.2m BMT ordinary shares, representing 14.7 per cent of BMT's issued ordinary share capital, on March 20 1989.

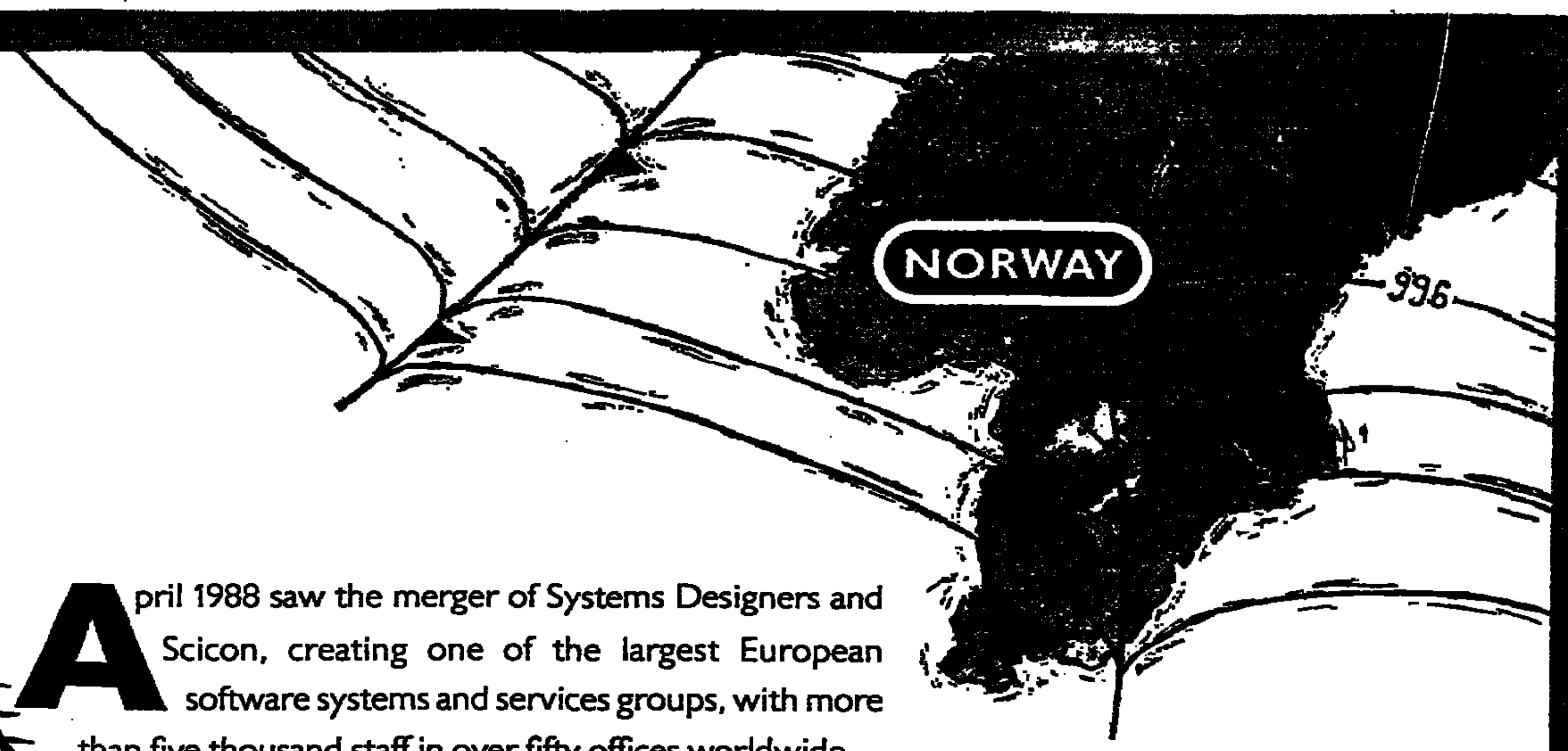
BROMSGROVE INDS

Purchase of Naylor

Bromsgrove Industries, the acquisitive engineering and financial services group, is to buy Naylor, a private Worcestershire-based company, which makes plastic and foam materials used in floral displays.

The initial consideration will be met by the payment of £100,000 cash to Naylor's shareholders and the issue of £2.4m units of 9 per cent unlisted convertible loan stock 1999.

In the year to July 31, Naylor made pre-tax profits of £199,000 on turnover of £1.75m. Net assets at that date were £787,000.



The contract for the Norwegian Meteorological Message Switch was the fifth national meteorological system recently won in Europe, reinforcing SD-Scicon's position as a leading European supplier

RESPOND is the RAC's new Computerised Customer Support System. The first phase, run from our UK Data Centre, is just one of a number of facilities management contracts won in 1988.

April 1988 saw the merger of Systems Designers and Scicon, creating one of the largest European software systems and services groups, with more than five thousand staff in over fifty offices worldwide.

Now, barely a year later, the combined strengths and complementary skills of our staff have been fully integrated, resulting in a major force in our industry.

Our operations span six major market sectors: communications, finance, energy, industry, defence and aerospace and civil government. Each sector is supported by leading-edge technology research in key areas.

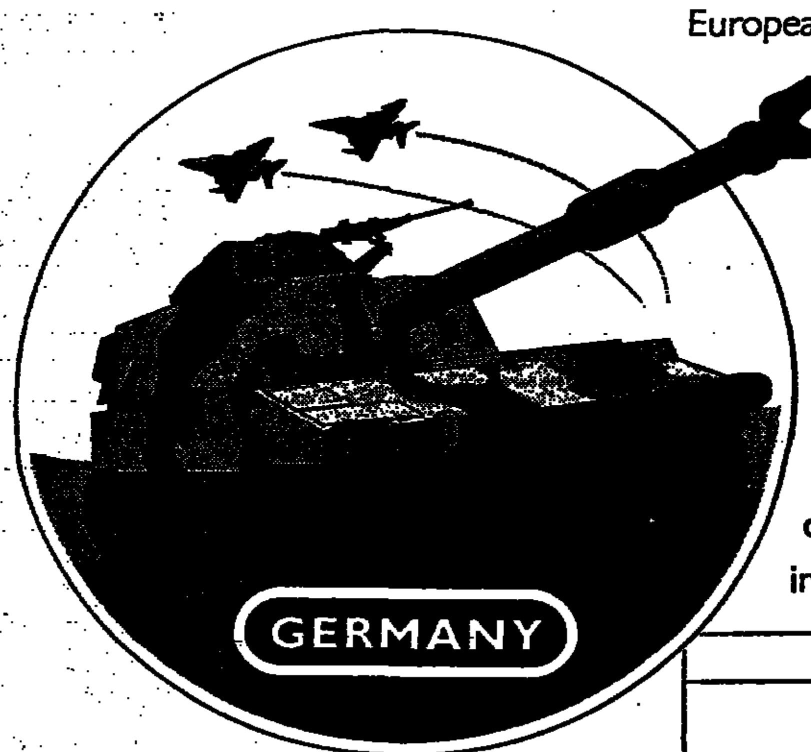
Last year nearly three quarters of our turnover came from Europe, with sales from our French and German companies contributing over half of this European total.

With the approach of the Single European Market in 1992, we are well placed to meet the challenge of servicing the needs of our present and future clients.

And in the USA our specialist companies servicing the financial and automotive sectors have maintained their strong market positions.

But whatever the areas of operations, our total commitment to quality of product, excellence of service and international strength underlines our strategy for the future.

In partnership with Bull, the major French owned computer manufacturer, we are developing the reservation and administration systems for the new Opéra Bastille in Paris, to be inaugurated during this year's celebrations of the Bicentenary of the French Revolution.



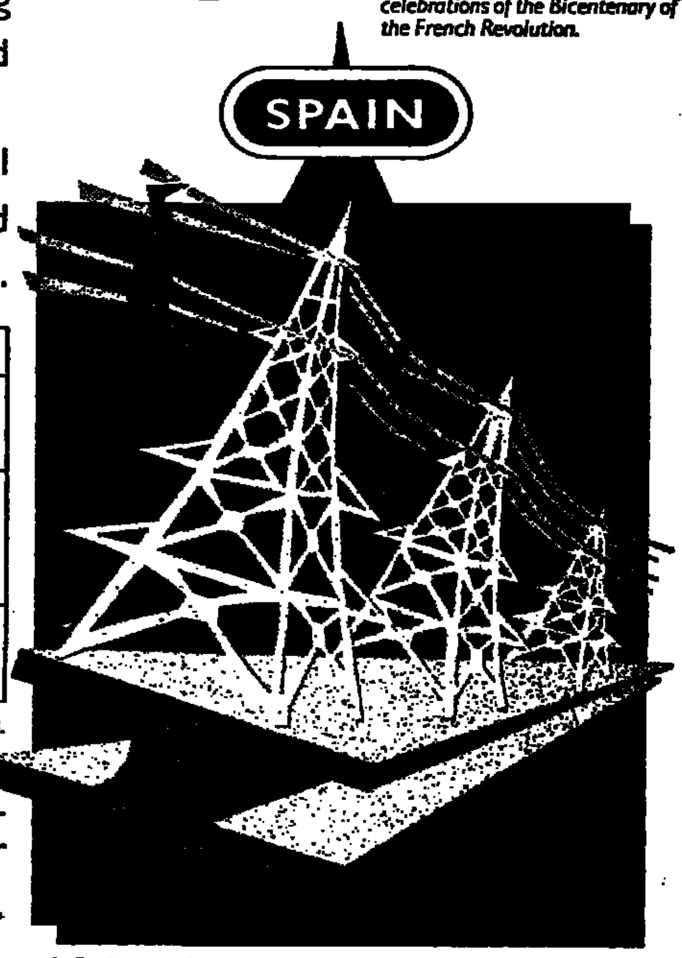
Project JASMIN, a study of the German sub-system within NATO's Battlefield Information Collection and Exploitation System.

FINANCIAL HIGHLIGHTS

	1988 £'000	1987 £'000
Turnover	**221,565**	83,644
Operating Profit	**15,386**	8,367
Profit Before Tax	**13,354**	7,363
Earnings Per Ordinary Share	**4.01p**	3.84p
Dividends Per Ordinary Share	**0.75p**	0.65p

Extract from preliminary announcement of results of 1988 based on unaudited accounts for the year to 31 December 1988. In respect of 1987, the above figures are based on accounts which contain an unqualified audit report and which have been filed with the Registrar of Companies. Earnings per share have been adjusted to take account of the rights issue in April 1988. The past is not necessarily a guide to the future.

Our 1988 Annual Report will be published in mid April. For a copy, please contact the Company Secretary, SD-Scicon plc, Centrum House, 101–103 Fleet Road, Fleet, Hampshire GU13 8NZ.



In Spain, one of Europe's fastest growing industrial economies, we have established a strong position in capital plant maintenance systems with five contracts in 1988 in the steelmaking, oil and electricity industries.

It all adds up to a successful year.

SD SCICON

S D - S C I C O N P L C

The contents of this advertisement, for which the directors of SD-Scicon plc are solely responsible, have been approved for the purposes of section 57 of the Financial Services Act 1986 by Ernst & Whinney, a firm authorised by The Institute of Chartered Accountants in England and Wales to carry out investment business.

At top end of City forecasts despite effect of adverse currency rates

Bowthorpe improves 23% to £40m

By John Ridding

BOWTHORPE HOLDINGS, the electronic components group, yesterday announced pre-tax profits of £40.1m for last year, right at the top of city forecasts and an increase of 23 per cent over 1987.

Turnover rose by 14 per cent to £184.64m (£162.64) and earnings per share increased 16 per cent to 15.83p (13.16p).

The board has recommended a final dividend of 2.74p (2.227p) which combined with the interim payment of 1.26p (1.05p) gives a total of 4p (3.277p).

Profits for the year would have been higher but for the effect of the strong pound on US sales. If the average exchange rate for 1987 had been used in conversion then pre-tax profits for 1988 would have been up by an additional £1.3m.

Mr Ray Parsons, chairman, said he was pleased with the results and that the group had enjoyed a stronger second half than anticipated. He added that Bowthorpe's recent acquisitions had contributed positively and that Thermalloy, the manufacturer of heatsinks which was bought in September for £13m, performed on target.

Geographically, Bowthorpe's European operations performed well and increased their share of total operating profits from 25 per cent to 31 per cent.

Germany, in particular, saw strong growth through WAGO, manufacturer of screwless terminals. By contrast, the profit share of Bowthorpe's UK operations fell from 42 per cent to 38 per cent.

The group continues to generate cash and at the year end liquid funds amounted to £36.6m, despite the year's £29m acquisition programme. The directors said that the programme was continuing and that negotiations are under way with a number of US and European companies.

Bowthorpe has also decided to transfer goodwill to the profit and loss account reserve over a period of ten years from the date of acquisitions. This accounting change took effect from January 1 and should boost future borrowing capacity.

● COMMENT

Bowthorpe's 13 years of steady growth represent an impressive achievement for a manufacturing company and explain the premium its share ratings enjoy over other component makers. Much of the explanation lies in the management's ability to identify and develop niche products and achieve high returns on capital in often relatively low technology products. The only longer-term reservation is that it will be difficult to further increase returns on capital and that the group needs therefore to expand through both acquisition and investment. However, this seems to be occurring and a number of further purchases can be expected in the near future. The group has also achieved a better balance, reducing its defence related sales from 24 per cent in 1987 to 19 per cent last year. In the shorter term there are a number of constraints and lost advantages. UK operations have experienced a slow start to the year and last year's £2.4m insurance payment resulting from the arson attack on the group's Hellerman Deutsch subsidiary will this year reduce to around £1m. However, losses resulting from exchange rate movements are likely to be much reduced this year and overseas sales, which now account for two-thirds of the total, are looking promising. As a result, analysts are looking for profits of £45m, putting the shares on a prospective multiple of around 12.

Western Motor expansion and rights plan

By Ray Bashford

WESTERN MOTOR Holdings, boosted pre-tax profits 75 per cent during 1988 reflecting strong performances in its car importing, retailing and transport operations.

Pre-tax profits increased from £5.76m to £10.08m following a rise in turnover to £249.18m (£135.76m). Fully diluted earnings per share improved to 70.7p (56.8p).

Directors are proposing a final dividend of 8.5p (5p), lifting the total to 12p.

Continuing the rapid expansion which began two years ago following a management buy-in which valued the company at £5.5m, directors also announced two acquisitions and a one-for-four rights issue at 550p a share to raise £12.5m.

Western Motor is adding to its list of prestige and volume car franchises and through the purchase of Howells and is moving into the business of supplying and leasing spare parts for commercial jet aircraft through the acquisition of AJ Walter.

Mr Richard Palmer, managing director, said 1988 was a period of consolidation after the £20.6m purchase of the company which held the exclusive uk franchise for the Soviet-made Lada range in October 1987 and Pentis, the Thames Valley-based car dealer, for £13.3m in June of the same year.

Howells, which operates Mercedes, Jaguar, Range Rover and Austin Rover dealerships in South Wales, Worcester and Cheltenham, is being purchased for £6.5m cash, of which £4.6m will satisfy an inter-company debt, from the Standard Chartered group.

The purchase lifts the Western Motor's dealerships to 22, evenly split between prestige and volume outlets.

Mr Palmer said that significant advantages could be obtained by establishing transport and marketing links between existing Pentis dealerships along the M4 with those acquired through the Howells purchase.

"The current economic upsurge in south Wales, coupled with the increasing number of new industries that have decided to locate there, also bode well for future profits."

Howells returned pre-tax profits of £549,000 in the year to October 31 on a turnover of £51m.

AJ Walter supplies spare parts for lease, sale or exchange to primarily British Aerospace 1-11 and also Boeing 707,727, 737 and Airbus 300. It also provided aircraft maintenance services under sub-contract.

Turnover is spread evenly between the UK and and US. The company is based at Gatwick airport with other operating arms in Texas and Florida.

The initial consideration is *£4.2m, comprising £1.2m in* cash and the remainder in shares at 600p. The vendors may receive a further 459,375 shares at 600p if the company returns pre-tax profits of at least £1.1m in the year to December 31 this year. AJ Walter's post-tax profits for the year to April 30 last year were £457,000.

Another performance-related arrangement could return the vendors a further £6.65m if unspecified profit targets are reached by the end of 1993.

The importation of the Lada range of small, low priced cars was by far the group's principal profits source with the pre-tax contribution up from £4.1m to £6.2m and registrations 22 per cent higher.

The import business accounts for 62 per cent of turnover.

Net assets rise 52% at Laing Properties

By Paul Cheeseright, Property Correspondent

LAING PROPERTIES, nearly half of whose assets are in Canada and the US, yesterday disclosed a sharp increase in its net asset value. At 644p per share - 52 per cent more than at the end of 1987 - it exceeded most City estimates.

But the market reaction was subdued and the shares slipped 5p to 500p, putting them on a larger discount to net asset value than is currently customary among property investment groups.

The share price has been spurred this year by the accumulation of a 7.2 per cent stake by Chelsfield, the privately-owned property company controlled by Mr Elliott Bernerd. This had prompted speculation about a bid, although 40 per cent of the shares are held by the Laing family and its trusts.

Mr Brian Chilver, chairman, said the company was "reasonably relaxed" about the holding, "but we are cautious and are keeping our eyes open."

The disclosure of the higher net asset value was accompanied by an announcement that pre-tax profits for 1988 rose to £23.6m (£20.2m). Fully diluted earnings per share rose from 24.3p to 27.2p.

A proposed final dividend of 5.75p brings payments of 10.25p (9p) for the year.

Although last year surplus on property trading was £8.6m, against £3.5m, there was marked growth in investment income, the staple of the group's revenue. This rose from £29.3m to £36.6m and reflected the general strength of the market in addition to the extra flow of revenue from *Canadian acquisitions.*

The gross value of Laing's property assets rose over 1988 from £460m to £700m, partly because of purchases but also because of increases in value, especially in the UK. Laing has been increasing the size of its Canadian assets while decreasing its exposure in the US.

Paterson Zochonis below £11m as weak naira bites

By Andrew Hill

A DRAMATIC decline in the value of the Nigerian naira cut pre-tax profits at Paterson Zochonis, the West African trader and manufacturer of toiletries and detergents, by more than 8 per cent to £10.92m for the six months to November 30.

The group, which owns Cussons, the maker of Imperial Leather soap, warned of the decline in December, at which point the naira had fallen 23 per cent against sterling since Paterson's May year-end.

But between December and February the naira fell 20 per cent, cutting a further £1.1m from the interim figures when translated into sterling.

Paterson said second half profits would be broadly in line with the interim figures, and declared an increased interim dividend of 1.95p (1.8p).

Turnover rose from £94.18m to £104.99m but earnings per share declined from 15.54p to 13.81p.

Mr Alan Whittaker, finance director, said it was quite possible that the naira, the value of which is linked to oil prices, would suffer a further decline before May.

However, he said this should be offset by improvements elsewhere in the group, especially expansion of the Cussons range in Australia and the Far East.

"We don't close our eyes to the possibility of acquisitions. On the other hand in our sector they tend to be extremely costly," said Mr Whittaker yesterday.

The fall in operating profits to £4.87m (£5.76m) was set against a 5 per cent increase in investment income to £7.42m (£7.07m).

Paterson's investments used to be weighted towards gilt-edged securities, but since last August the balance of its portfolio has changed. European and US equities now account for 15 per cent of the group's investments, bonds and gilts about 40 or 45 per cent and the balance is on bank deposit.

● COMMENT

Paterson continues to struggle against the suffocating embrace of the oil-dependent Nigerian economy. In 1987-88, it was a reduction in sales which caused a 27 per cent profits downturn; in 1988-89, the West African subsidiaries look like putting in an improved performance in local currency terms, but the plummeting naira is dragging back group profits. That leaves investors to clutch at straws, such as Cussons' steady expansion into Australia and a reduction in losses at Interparco, which trades in French-speaking Africa. Analysts are not sure the group will make as much in the second half as it did in the first half. If it does, profits of £22m before tax for the full year leave the shares on a prospective p/e of 12. Bid prospects are ruled out by the Zochonis family's 85 per cent stake, and acquisitions are difficult when competing with larger groups which can absorb short-term earnings dilution. Under the circumstances the City's lack of enthusiasm seems understandable.

Food Industries lifts offer for Westmeath dairy to I£11.73m

By Kieran Cooke in Dublin

FOOD INDUSTRIES, the Irish agribusiness group controlled by Mr Larry Goodman, yesterday upped to I£11.73m its cash offer for the small Westmeath dairy cooperative in the Irish midlands.

Food Industries is in the midst of a highly charged battle for control of Westmeath with Avonmore Foods, another *Irish agribusiness company.* At the end of the last month the board of Westmeath recommended its shareholders, mostly farmers, to accept an £8.5m Avonmore offer.

Food Industries subsequently made a direct offer to shareholders of £10.4m. Avonmore have meanwhile said that a combined cash and share offer it has made is worth £14m.

The battle for Westmeath is ultimately concerned with control of precious EC milk quotas in the run up to 1992. Avonmore is the biggest dairy processing company in Ireland with 13% of production while Food Industries has at present *only about 3% of total* production.

But Food Industries, which groups the non meat interests of Goodman International, Europe's largest beef processor and exporter, has ambitions to become one of the big players in Ireland and Europe's agribusiness sector in the near future.

An intense lobbying and publicity campaign by Avonmore and Food Industries to woo Westmeath shareholders is now underway. The final outcome of Ireland's latest takeover battle is not expected for some weeks.

CORRECTION

Cambridge Elect

The prospective pre-tax profits figure in yesterday's comment on Cambridge Electronic Industries should have read £17.5m. *The p/e on this basis* was correctly stated at 10.

News Digest

DESOUTTER

Profits rise 23% to £7.4m

DESOUTTER Brothers (Holdings) saw pre-tax profits rise 23 per cent in 1988 from £5.99m to £7.39m. Turnover for the period was higher at £44.52m, against £40.33m, a *rise of 10* per cent.

Earnings per share were 36.6p (30.1p) and a final dividend of 8p is recommended making a total for the year of 11p (9.1p).

CLUFF RESOURCES

Transformation confirmed

In the year in which its transformation into a profitable mining company was confirmed, Cluff Resources, USM-quoted minerals and petroleum explorer reported profits of £1.19m against a loss of £2.77m.

Turnover in 1988 was £6.09m (£2.38m) and earnings per share were 1.3p (losses 5.2p).

During the year 23,200 oz of gold were produced with two new mines beginning production. There were new discoveries in Ghana and the setting up of an exploration base in Chile.

JOHN I JACOBS

Sharp fall to £856,000

John I Jacobs, shipowners and shipbrokers, reported pre-tax profits sharply down from £1.37m to £856,000 on turnover up from £2.67m to £3.28m.

A final dividend of 2.8p (2.7p) is proposed, making 3.3p (3.2p) for the year to December 31 1988.

Earnings per share stood at 2.99p (4.76p).

WORLD OF LEATHER

Polished performance

World of Leather, retailers of upholstered leather furniture, announced pre-tax profits sharply increased to £2.08m in 1988.

The advance from the previous year's total of £760,000 was achieved on turnover 48 per cent higher at £23.34m (£15.77m).

The chairman said that although the company was not totally immune from the generally difficult retail climate, the current year had started promisingly. Further store openings were planned and acquisitions would be sought, he added.

Tax took £733,000 (£175,000), leaving earnings per 10p share of 16.8p (7.2p). The recommended final dividend is 3.7p for a total of 4.5p (3.2p).

EADIE HOLDINGS

Revamp fully justified

Eadie Holdings, the transport equipment and wire products group, lifted pre-tax profits from £318,000 to £1.29m in 1988.

Mr Roderic Mather, *chairman*, said the result fully justified the decision to abandon high volume, low margin business and to create a transport equipment division.

This was subsequently enlarged during the year via the purchase of Ross & Bonnyman, a manufacturer of security pallets and taillifts.

Turnover expanded 35 per cent to £14.25m *(£10.58m)*. Earnings per share vaulted to 5.76p, up from 1.64p last time. The final dividend is lifted to 1.1p for a total of 2p (1.5p).

Below-the-line loss helps Bunzl

By Clay Harris

BUNZL, the distribution and specialist manufacturing group, increased pre-tax profits by 9 per cent to £93.3m in 1988, *but the advance was achieved* in part by a decision to take below the line trading losses in subsidiaries it intends to sell.

As a result of this change in accounting policy, several divisions' losses of £4.4m in part of 1988 were taken as an extraordinary item.

Mr James White, chairman and chief executive, also said a somewhat larger provision had been taken in the 1988 results relating to a possible write-down of assets and continuing trading losses in 1989 until the disposal of two businesses – UK transport services and US food services – is completed.

Bunzl's decision means that the results of businesses in line for disposal cease to be reflected above the line from the moment the board decides in principle to sell.

Mr White said the policy more accurately reflected the direction Bunzl was moving, "doing fewer things on a bigger scale."

The disposals – "within weeks, not months," Mr White said – are expected to yield £50m to £60m.

TRADING PROFITS BY ACTIVITY (£m)		% change	% return on sales
Service and distribution			
Paper and packaging	48.8	+ 56	5.0
Industrial products	9.6	+357	3.6
	58.4	+ 75	4.7
Specialist manufacturing			
Paper and plastics	21.5	+ 32	32.3
Filters	16.4	+ 18	10.1
	38.9	+ 26	12.1
Discontinued activities*	4.4	– 65	13.9
Corporate activities	0.8	– 82	n/a
Associates	1.5	– 46	n/a
Interest net of investment income	(8.7)	†	n/a
Pre-tax profit	93.3	+ 9	5.3

* To date of disposal decisions; another £4.4m in subsequent trading losses taken as extraordinary
† £2m net receipt in 1987

The UK transport business is likely to be sold to management, while there are about a dozen suitors for the US food services company.

Afterwards, Bunzl will be involved only in the manufacture of filters and specialist papers and plastics and the distribution of paper and packaging in the US and Australia, fine paper in three European countries, and electrical components and speciality building products in the US.

"That's all we intend to do for the foreseeable future," Mr White said. Renouncing the group's acquisitive legacy, he said: "You will never again see a time when Bunzl buys a company every two weeks."

The increase in pre-tax profits from £85.7m in 1987 came on turnover ahead by 19 per cent to £1.75bn (£1.47bn).

A tax charge of £34.2m (£30.3m) reflected a higher effective rate of 36.7 (35.3) per cent.

An extraordinary debit of £1.2m reflected the net effect of offsetting the 1988 and 1989 trading losses and provisions against profits from the disposals of subsidiaries.

In addition, Bunzl said, above-the-line results included profits of £8.5m (£7.6m) arising from the sale of fixed assets and investments.

The pre-tax total would have been £3.5m higher if 1987 exchange rates had applied in 1988.

Earnings per share rose by 7 per cent to 14p (13.1p). A final dividend of 3.3p (2.9p) will raise the total by 14 per cent to 5.7p (5p).

● comment

Bunzl seems to move the goal posts every year. In 1987, it was the treatment of share dealing profits and currency translation; this time, it was a redefinition and post-dated restatement of categories within the manufacturing group and the insulation of earnings per share from trading losses through the curious accounting change. Most analysts were willing yesterday to forgive Bunzl's latest creativity as not really too naughty, but, honestly, who believes the company would have done the same if the results in question had been profits? On Bunzl's behalf, it must be said that the company has set itself a higher hurdle for the current year than if it had behaved conventionally. Assuming pre-tax profits of £110m in 1989, in the absence of any new accounting surprises, the prospective multiple of 10 is high enough on basics. Bunzl, however, might have its attractions to acquisitive forest products groups in search of diversification.

C and W sells SA offshoot

By Terry Dodsworth

CABLE AND WIRELESS, the international telecommunications operating group, has sold the South African division of its Telephone Rentals subsidiary to a local company for R14.4m (£2m).

The divestment follows C and W's acquisition of Telephone Rentals last year. The company announced at that time that it did not intend to hold onto the TR Services operation in South Africa. This was seen as a move to avoid political criticism from third world countries, where C and W has extensive interests.

The South African business is being acquired by a specially-established partnership. This will be headed by Mr Peter Brennan, the current chief executive of TR Services, and will have the financial backing of the Datakor company.

Star Computer

Star Computer Group achieved pre-tax profits up from £345,000 to £464,000 for the half year ended December 31 1988 on turnover up from £6.09m to £6.91m.

Earnings per share were up *from 3.0p to 3.5p.*

Acquisitions help Hall Eng. advance 11% to £10.21m

By John Thornhill

HALL ENGINEERING (Holdings), the Shrewsbury-based metal stockholder and processor, increased profits by 11 per cent to £10.21m in 1988, against £9.16m.

Stripped of a £160,000 exceptional loss on land sales in Singapore this year and a £1.4m exceptional credit from land sales in 1987, there was an advance of 34 per cent, from £7.8m to £10.4m. A little less than £4m of profits came from overseas, including £2.6m from associated companies.

Turnover rose to £149.79m (£135.54m), an increase of 10.5 per cent. Earnings per share, after exceptional items, came to 46.06p (42.51p). The directors are recommending a final dividend of 8.9p which will make a total of 14.4p (12p).

During the year Hall took a 75 per cent stake in Norburn Engineering, a precision sheet metal manufacturer, at a cost of £1.65m. This contributed £600,000 to trading profit.

Two other companies, Crylic Designs and Pricemakers, which make point-of-sale display materials, were bought for £285,000. Reliance Compra, a decorative trim maker, was sold in February, for £350,000.

Mr Alastair Smith, director, said over £10m had been invested in tangible net assets in 1988. This high level of investment would continue in the current year and could reach £15m, he said.

● COMMENT

This was a solid performance by Hall Engineering, ahead of most expectations, and was met with a favourable reception from the City which pushed its share price up 33p to 468p after the announcement. The disposal of Reliance Compra removes one stone from around its neck and the tax charge will also impose a lesser burden this year. Recoverable ACT payments will put Hall on a tax charge of about 30 per cent, compared with nearly 34 per cent in 1988, which will help earnings growth. The high level of capital expenditure in 1988 suggests strong growth potential and investment will continue in the current year. Profits of over £12m look in sight for the year which on the latest share price would put Hall on a prospective p/e of about 8. That looks good value in the short-term, considering Hall's growth prospects, but it should be remembered that tax will again loom more prominently by 1991.

Sharpe & Fisher advances to £2.61m

SHARPE & FISHER, the builders' merchant now reorganised following the sale of its Sandfords DIY chain to Ladbroke late last year for £42m, returned profits of £2.61m pre-tax for 1988 from a turnover of £45.78m.

The profit compares with an adjusted £2.29m for 1987 which was struck on the back of a turnover of £40.93m.

The reorganisation, which was completed in January, resulted in a payment of 160p to shareholders.

There will be no final dividend for 1988 but as promised at the time of the restructuring, dividends totalling at least 4p will be paid in respect of the 1989 year.

Directors said there was scope for improvement in margins and they were seeking expansion though acquisition *and site development.*

Halls Homes ahead at £2m

Halls Homes & Gardens, the USM-quoted designer and manufacturer of conservatories, garden buildings and do-it-yourself products, reported pre-tax profit up 43 per cent from £1.42m to £2.02m on turnover up from £22.16m to £28.74m for 1988.

The profit was struck after taking account of start up costs of £601,000 (nil).

Earnings per share were up from 8.1p to 12.2p. A final dividend of 4p is being paid making 6p (3.75p).

Mr Clive Gregory, chairman and managing director, said the retail division had benefited from continuing strong growth in the DIY superstore sector.

The traditional conservatory division had also increased sales, and was now established as the second largest supplier in this fast-growing market.

Federated up 38% to £6.11m

A 38 per cent increase in pre-tax profits was announced by Federated Housing, residential property developer, for 1988. On turnover 23 per cent ahead to £34.38m against £27.9m the taxable result rose from £4.43m to £6.11m.

Earnings per 5p share improved to 39.8p (27.4p) and a final dividend of 5p (3.3p) is proposed for a 7.5p (5p) total.

During the year the company increased its land holdings substantially.

Its policy has been to secure a long-term supply of land for housing in all its main areas of operation. In particular, it has contracted to acquire a substantial site in Ashford, Kent, on which the directors expect to get planning permission for more than 600 units during 1989.

Tax took £2.07m (£1.58m) and there was an extraordinary £281,000 debit.

UK COMPANY NEWS

Hepworth advances 43% to profits of £86.31m

By Vanessa Houlder

HEPWORTH, the building, home and industrial products group, announced a 43 per cent rise in pre-tax profits from £60.23m to £86.31m.

Turnover increased by 39 per cent to £576.8m (£415.4m). Organic growth accounted for about 30 per cent of the sales increase and about 40 per cent of operating profits growth. The performance of the newly-acquired Henderson Group exceeded the group's expectations.

Mr Sinclair Thomson, group chief executive, described the results as "impressive by any standards". The company operated in markets that were competitive but buoyant, he said.

During the year, Hepworth purchased the outstanding 22 per cent share in GR-Stein from British Steel. In addition, it strengthened its presence in the US resin coated sand market, through the acquisition of Besco and Santrol in Oklahoma and Texas.

Gearing stood at 12.7 per cent at the year end. Interest costs increased to £1.18m from a credit of £1.25m.

The breakdown of divisional operating profits was: building products £34.42m (£26.9m); home products £18.37m (£9.58m); refractories £15.61m (£10m); minerals & chemicals £15.88m (£12.04m) and industrial products £3.41m (£460,000).

Earnings per share increased by 34 per cent to 28.59p (21.34p). A final dividend of 7.9p was recommended, making a total for the year of 12.05p (9.9p).

● COMMENT

Hepworth's new management team continues to earn plaudits for its revitalisation of the rather hidebound company it inherited two and a half years ago. Aggressive marketing, new product innovation and tight control of cash and working capital have breathed new life into mature businesses. Diversification into related areas is well underway - illustrated by the commissioning of new plant for facing bricks. However, trading conditions have been kind to the company throughout the period and the degree of its resilience in a downturn remains to be seen. Given the high operational gearing of this kind of business, a major slowdown in the construction industry next year could inflict significant damage. That said, the company has shrugged off the more immediate worries about the new housing market. This market accounts for just 10 per cent of sales and the resulting slowdown in the building products division has so far been more than compensated by the buoyancy of the industrial and commercial market. Analysts expect profits of at least £95m this year, which put the shares, up 3p to 282p, on a rating of about 8.5. That seems undemanding, especially given the generous prospective yield of 6.7.

Handley-Walker at £1.4m

HANDLEY-WALKER Group, the consultancy which came to the USM last April, achieved pre-tax profits of £1.37m in 1988.

The increase from the previous year's total of £821,000 came on turnover up 47 per cent to £9.57m. Earnings per 5p share were 14.2p (8.9p) and a final dividend of 3.6p makes 5.4p for the year.

Property profit boosts William Morrison to £32m

By David Waller

WILLIAM Morrison Supermarkets, the Yorkshire-based food retailer, yesterday reported a 25 per cent increase in pre-tax to £32.15m for the year to January 28.

The figure included an exceptional earnings property profit of £3.75m, against £164,000 in 1987.

Turnover rose by 25 per cent, from £480.12 to £602.65m, but operating profits increased at just over half that rate, by 13.8 per cent to £28.74m. Fully diluted earnings per share rose by 20.2 per cent, from 17.12p to 20.57p.

According to Mr Kenneth Morrison, chairman, the slippage in margins was due to one-off costs associated with new store openings and the a new central warehousing facility.

Seven new stores were opened during the year, taking the company's total to 44. Pre-opening costs, plus the distribution changes, clipped operating profits by £1.5m.

Another dampener on operating profits was depreciation, which climbed by over 68 per cent.

Gross margins increased, from 17 to 18 per cent. Whilst much of the sales growth came from the new openings, the underlying growth in sales from stores open for the whole year was 10 per cent.

Mr Morrison said this was far ahead of inflation in food prices, which ran at about 5 per cent last year.

The plan is to open another three superstores in the current year, taking the total to 47 with an average selling space of 33,000 square feet each.

Turnover is 28 per cent above last year in the first seven weeks of the current year; the directors feel confident enough to recommend a final dividend of 1.75p, making 2.3p for the year against 2p in 1988.

The company is proposing to hold a 1-for-1 capitalisation issue, and to seek powers to buy in its own shares. Shareholder approval will be sought at an annual general meeting.

● comment

The food retailing sector has fallen very much out of favour with investors over the last year, underperforming the market as a whole by more than 20 per cent. William Morrison has been immune from this – falling by less than 2 per cent against the market – and yesterday's figures show why. Here is a company operating in one of the most saturated markets in the UK (with one superstore for every 90,000 people in Yorkshire alone) and yet turnover jumped by 25 per cent, gross margins improved by a point and organic growth, at 10 per cent, was twice the rate rate of food price inflation. The fall in operating margins from 5.2 to 4.7 per cent was largely attributable to one-off costs associated with a busy expansion programme, the full benefits of which should show through in the current year and the next as the new stores reach maturity. Analysts expect a minimum of £34½m in pre-tax profits for 1989-90 (excluding property profits), putting the shares on a prospective multiple of 13.8. This is a 10 per cent premium even to Sainsbury's, but one which is deserved in the light of Morrison's excellent record and its rarity value as one of the last independent regional food retailers.

Buoyant trading lifts Trinity 29% to £14.9m

SUSTAINED buoyant trading conditions in the UK and North America helped push pre-tax profits of Trinity International Holdings up by 29.4 per cent to £14.85m in the year ended December 1988.

This compared with £11.47m last time and was struck on turnover up 20 per cent from £90.1m to £108.1m.

UK tax took £3.81m (£2.81m) and overseas tax payable totalled £1.81m (£1.6m) after which earnings per 10p share came out at 16.5p (12.6p). The recommended final dividend of 4.2p (3.6p) makes a total for the year of 6p (5p).

The company said the achievement of its UK newspapers had been particularly notable, with profits increased by some 80 per cent to £5.03m. This included a highly creditable performance from North Wales Independent Press, acquired in February 1988.

The papermaking and packaging division again contributed the largest share to group profits at £5.7m. Paper mills had achieved record production levels and demand remained strong.

Newspapers in North America, where the newly-acquired Buckeye Press had quickly made a substantial contribution, turned in profits of £4.6m.

Iceland up 25% to top £9m as Bejam refit gets under way

By Philip Coggan

ICELAND FROZEN Foods, the retailer which recently took over the rival Bejam chain, yesterday reported a 25 per cent jump in pre-tax profits to £9.03m in 1988.

The Bejam purchase was completed after the year end and was not included in the figures. But Mr Malcolm Walker, chairman and chief executive, said that sales figures at Bejam were worse than had been expected.

In the last quarter of 1988, Bejam's sales were 10 per cent down year-on-year and in January 1989, the annual decline was 13 per cent. The half year to December saw a 10 per cent decline in Bejam's profits to £11.1m.

"Bejam would have been in major difficulties this year if we hadn't become involved" he said. However, Mr Walker said he was confident this trend could be reversed.

Thirteen Bejam stores had already been refitted in the Iceland format and first week sales in the new stores were 40 per cent higher. Mr Walker said that all the Bejam stores would be refitted by the end of December 1990, at a total cost of £40m.

Iceland said that there were plenty of overheads to be cut out of the business; Bejam's computer department, for example, employed 84 people and used 34 company cars but the company's information systems were still unsatisfactory.

In all, 450 redundancies would be caused by rationalisation, although this would be partly offset by an extra 100 jobs at Iceland's Deeside base. The rationalisations would result in write-offs of around £17m.

Mr Bernard Leigh, finance director, said that despite the write-offs, gearing would remain at around 60 per cent until the end of the year. The company had no plans for a rights issue.

Wizard Wine, Bejam's wine retailing subsidiary, has been sold to Mr John Apthorp, Bejam chairman, for £1.2m.

Volume in Iceland's existing stores rose by 12 per cent last year. Twenty-three new stores were opened and a new computerised coldstore proved a success, after initial problems.

A further 45 stores would be opened in 1989.

Pre-tax profits were struck on turnover of £305.3m (£154.55m). After tax of £2.61m (£1.8m), earnings per share were 21.39p (17.21p). The final dividend of 3.58p makes a total of 5.38p (4.55p).

● COMMENT

Mr Malcolm Walker's professional presentation doubtless helped him win the bid for Bejam and he was full of (frozen) beans yesterday as he highlighted what was wrong with the acquired company and what he had already done about it. Iceland has a lot of work to do in terms of refits and restructuring at Bejam and the days when investors were slavish devotees of a bright retailer with a "formula" are long past. Fine words freeze no parsnips. Nevertheless, Iceland has a profit record to match Mr Walker's eloquence and if the company makes £40m this year, the shares are on a prospective p/e of around 13, which probably fairly reflects the potential risks and rewards of assimilating Bejam.

Plaxton expands to £4.75m

By Graham Deller

PLAXTON, the revamped coachbuilder which now also takes in vehicle dealerships and contract hire and leasing, yesterday unveiled pre-tax profits of £4.75m for the 15 months to end-December.

The advance from the £1.49m achieved in the comparable period – the twelve months to end-September 1987 – came on turnover sharply increased to £244.13m (£99.88m).

Mr David Matthews, chairman, said the group had experienced accelerating operational improvements and had achieved record results while reinvesting strongly.

Coach activities contributed £2.51m (£600,000) to operating profits on turnover of £94.16m (£59.25m).

The purchase of Carrosserie Lorraine, a French coach manufacturer, marked the first step of Plaxton's planned expansion into Europe.

Vehicle distribution, under the Kirkby Motor Group banner, made operating profits of £3.38m (£962,000) on turnover of £160.04m (£46.01m). Parts and service accounted for some 53 per cent of the division's profits.

Contract hire and leasing brought in profits of £1.16m (£346,000) on turnover of £4.4m (£861,000). The balance of turnover was accounted for by inter-group sales which amounted to £14.58m (£8.26m).

Earnings per share rose to 14.7p (7.8p). A proposed final dividend of 3.1p makes a total of 6.2p for the extended period. Plaxton paid dividends totalling 4.5p in the previous year.

Monotype sells CPL holding

By Patrick Butler

MONOTYPE CORPORATION, the manufacturer of laser-based photo-typesetting systems, yesterday agreed to sell its 67 per cent stake in *Chelgraph Products (CPL) for* £4m to De La Rue, the security printing company which indirectly controls the other 33 per cent of the joint venture.

Monotype, which is changing its financial year-end to March 31, announced that it had returned to the black in the second six months with pre-tax profits of £1.29m. This, however, was offset by first-half losses which resulted in a deficit of £332,000 for the 1988 year against a £4.85m profit in 1987.

Turnover in the last six months rose to £26.76m (£20.08m). The company did not declare a second interim *dividend*.

CPL was set up in 1985 as a joint venture between Monotype and Chelgraph, which later became part of De La Rue. Monotype's original investment in the venture was £16,750.

The £4m cash Monotype will receive from De La Rue represents a consideration of £3.13m for Monotype's holding and an £875,000 dividend payable to the company.

CPL makes electronic typesetting and imagesetting systems. In the year to December 31 1988 it posted pre-tax profits of £1.8m – £1.2m attributable to Monotype – on turnover of £5.4m.

Rationalisation begins to pay off as Kalon makes £3.7m

By Ian Hamilton Fazey, Northern Correspondent

KALON GROUP, the main *supplier of own-label* decorative paint to DIY retail warehouses such as B&Q and Texas Homecare, yesterday reported a substantial recovery from losses in 1987.

Pre-tax profits of £3.72m came on turnover slightly reduced at £86.08m (£86.91m).

The company lost £1.45m in 1987 under pressure of rising costs, static prices and under-used capacity in a tight market.

Last year it shut down its Lancashire factory and retrenched to its headquarters at Batley, near Leeds. It is now using *about* two-thirds of its 100m litres of capacity there. Distribution has also been improved and loss-making or difficult subsidiaries sold.

The changes have helped Kalon capitalise on an easing of market pressures. These have *come from several fac*tors, notably Crown's absorption of Berger and the consequent reduction in the UK paint industry's chronic overcapacity.

Since then there have been two price rises in the industry while the upward pressure on costs has diminished. However, Mr Leslie Silver, chairman, said that the worldwide shortage of titanium dioxide, the white pigment that is needed *for nearly all paint*, remained a worry.

The rationalisation of the industry has been brought about over the last 10 years by the move to DIY sheds in the retail paint market. With shelf space limited, these tend to stock only three brands of paint – ICI's Dulux, Crown and the sheds' own-label brands.

Mr Mike Hennessy, group managing director, yesterday said that the market was now stabilising after the disappearance of Berger and that all Kalon's divisions were expanding.

*The industrial coatings divi*sion was returning about £1m on sales of £5m. Kalon was actively looking to acquire other industrial coaters so as *to expand this business*. The market is fragmented worldwide into highly specialised niches.

Kalon will also be expanding its Leyland trade paint centres in 1989, extending in particular in the south of England to increase its national spread *and take its total number of* centres past 50. The centres sell to professional painting and decorating contractors.

This year should also see the *benefit of the full value of* 1988's rationalisation, which was not completed until October and is therefore not reflected fairly in yesterday's figures.

The directors are recommending a final dividend of 0.7p, making a total of 1p (nil) for the year. Earnings per share were 2.11p, compared with a loss per share of 1.01p in 1987.

Burton ahead of City expectations

By David Waller and Lucy Kellaway

BURTON GROUP, the clothing and department store multiple, yesterday announced interim pre-tax profits up from £109.3m to £117.5m. The figures were marginally ahead of City expectations and the shares rose from 206p to 212p.

Sir Ralph Halpern, chairman, said that trading conditions had been tough in the first half and were unlikely to get any less tough in the second. "Last week's Budget did nothing to change the economic picture," he observed.

With inflation rising, it would be difficult to pass on cost increases to customers because of the formidable competition in the high street. It would therefore be necessary to look hard at costs and productivity, while retaining quality and service levels.

In the 26 weeks to March 4 group turnover rose by 18 per cent to £897.4m. Earnings per share rose by 9 per cent, from 12.9p to 14p, slightly higher than the pre-tax profits growth rate because of a reduced tax charge. Interest edged up £1m to £12m.

The dividend rose by 17 per cent to 2.8p per share. Sir Ralph said that this was an effort to reduce the imbalance between the payout at the interim and final stage.

By far the biggest chunk of profits and turnover came from retailing. Turnover rose by £91.5m to £861.9m, an increase of 12 per cent while profit rose by 2.3 per cent to £104m (£101.7m).

The increase in sales translated into a gain of 0.5 per cent of its share of the UK clothing market share: that now stands at 11.5 per cent.

The 1 per cent fall in margins was less than half due to cost increases, the balance coming because of the shift away from concession sales towards own-bought products.

All retail divisions increased their profits, with the exception of Top Shop and Principles. Problems in the market for 15-19 year olds are by being addressed by transferring Top Shop space to more profitable activities.

In spite of the credit squeeze, profits from the financial services division rose by 5.5 per cent to £13.5m, while profits from property development doubled to £12m.

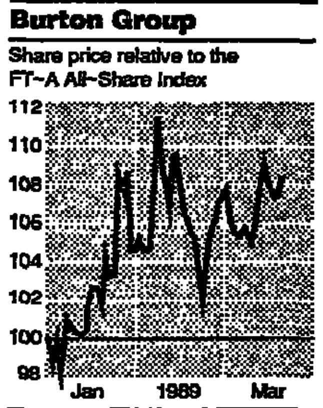
Capital expenditure absorbed £100m, spent on 100,000 sq ft of new space and modernising of 1.3m sq ft – 775,000 sq ft of which was completed at Debenhams before Christmas.

● COMMENT

Burton is trying to sell itself as the stock to back when times get really rough; and yesterday it made much of the increasingly desperate competition between clothing retailers, and of its ability to win through its superior grip on costs. These figures, although acceptable enough, do not necessarily confirm that picture. As Burton refuses to split up its retailing profit, the market only has the company's word that all is going to plan with its core businesses. Moreover, the high fixed costs of a department store are scarcely an asset when faced with a downturn.

Burton Group

Share price relative to the FT-A All-Share Index



Yesterday's heavy hint that dividends will bear up better than profits (which are set to rise by less than 4 per cent this year) may provide some support for the shares at 212p. Meanwhile, the great marketing drive to convince US investors, who have never visited a Burton store, that the company is a raving buy on a p/e of a mere 8 or so also seems to be working.

Belgians to take stake in London & Metro

By Paul Cheeseright, Property Correspondent

LONDON & Metropolitan, the British property development company, was last night locked in negotiations with CFI, the Belgian investment group with extensive property interests, over the terms under which CFI might purchase a stake.

CFI is thought likely to end up with about 10 per cent of L&M in a move which will give it an entry to the British property market. Alliances between British property development companies and continental European groups have been rare.

But CFI is apparently keen enough on a link with L&M to pay a premium. Talks about the price it will pay have evidently centred on a figure of more than 200p a share, which is 23p more than the L&M market price yesterday.

If the deal comes to fruition, it will give L&M a cash injection of £12m and hence provide it with more financial flexibility in its development programme.

At the same time, an alliance with CFI would strengthen L&M's equity base. It would provide the company with additional muscle in trying to retain an equity portion of the developments it undertakes.

Hitherto L&M has tended to sell its developments but now, in its third year after stock market flotation, it is anxious to create a wider asset base.

So far, helped by a buoyant property market, L&M has been able to maintain profits growth. Yesterday, it announced pre-tax profits for the year to last December of £13.87m, an increase of 53 per cent on 1987. Earnings per share rose 29 per cent to 20.5p a share.

Shareholders are to receive a 1988 final dividend of 4.25p a share, bring payments for the year to 6.2p compared with 4.75p for 1987. The increased payments were foreshadowed when the 1988 interims were announced.

At the end of the financial year, L&M had cash holdings of £22m and its gearing was 21 per cent, modest for a property development company. It had no off-balance sheet borrowings.

Delta profits up 15% to £74m on strength in engineering

By Richard Tomkins, Midlands Correspondent

DELTA, the electrical equipment, engineering and industrial services group which merged its cable activities with Hawker Siddeley's in December, yesterday produced a 15 per cent increase in pre-tax profits from £64.23m to £74.07m for 1988.

The result was achieved on turnover up 23 per cent, from £532.3m to £655.66m. Earnings per share rose 14 per cent to 32.7p (28.6p) and a final dividend of 7.8p makes 11.2p (9p).

During the year Delta acquired Suprenant, a US specialist cable business, for $33m, and two Australian companies – Industrial Galvanizers and Cutting Edges – for a total of A$30m. It also formed Delta Crompton Cables as a joint venture with Hawker Siddeley.

However, only a small part of the 1988 profits increase had come from acquisitions, said Mr Robert Easton, chief executive. The strongest increase came from the engineering division, which increased its pre-tax contribution from £14.37m to £19.50m. Industrial services also performed well, contributing £20.23m. The biggest division, electrical equipment, put in £34.82m.

● COMMENT

Delta has undergone something of a reappraisal this year and yesterday's good result added to the fizz by leaving the shares up 5p at 329p. The proximity to IMI's figures the previous day, however, prompts invidious comparisons. IMI has realigned itself into growth sectors while large chunks of Delta's markets look fairly mature: yet with expectations of £90m for Delta this year, the two are on the same multiple. The reason appears to be the City's interest in a change of strategy that has accompanied last year's boardroom reshuffle at Delta: a shift away from rationalisation-led profits growth of the previous few year to a policy of growth through organic development and acquisitions, clearly expressed in the Delta Crompton Cables venture. The old ideas about Delta may take time to eradicate, but this 1989 could be the year in which they start to shift.

Geest rises 29% to £18.29m

By Andrew Hill

GEEST, the fresh produce and prepared foods group, increased pre-tax profits 29 per cent to £18.29m in 1988.

Turnover was £463.85m (£391.37m) and earnings rose to 18.5p (15.6p). A final dividend of 2.75p makes 5p (4p).

Mr Leonard van Geest, chief executive, said the listeria scare had had an adverse impact on sales of chilled prepared meals in early 1989.

Sales of bananas, hit by drought in the Windward Islands in 1987, recovered in 1988, helped by a shortfall in the supply from Jamaica following Hurricane Gilbert.

● COMMENT

Forecasts for Geest's 1989 profits have been cut back slightly following the company's warnings of the effects of the listeria scare on prepared foods. Nonetheless, analysts seemed impressed with last year's performance. The group is earning a good reputation for effective pre-planning – the benefits of computerisation of the fresh produce division should start to come through during the year, for example – and a strong balance sheet adds to the general air of confidence. In the longer term there is some concern that Geest's dominance in bananas – based on the privileged position of its African, Caribbean and Pacific suppliers – could be shaken if the market is opened up to full competition from south American and central American producers after 1992. On past experience, that is a challenge Geest should be well-placed to meet. In the meantime, pre-tax profits should increase to £22m or £23m in 1989 putting the shares, which rose from 267p to 275p yesterday, on a prospective multiple of about 12: a premium to the market and the sector, but worth holding.

Granada's £71.7m sale

By David Waller

GRANADA, the TV, leisure and business services group, has sold its 67.75 per cent stake in Barranquilla Investments, its property company subsidiary, for a net £71.7m. Granada is also shedding borrowings of £11.5m.

The proposed disposal was announced last December at the time of the full year results. The proceeds will be used initially to cut gearing back to around 60 per cent and in time be spent on the core leisure businesses.

The stake contributed approximately £2m to Granada's pre-interest profits last year and the disposal will yield an extraordinary profit of between £8m and £9m to be carried in this year's accounts.

The stake is being bought by Metropolitan Properties, a private group. Its cash offer values the whole Barranquilla portfolio at £16.35m, against a balance sheet valuation of £104.15m on September 30 last year.

Yearlings

The interest rate for this week's issue of local authority bonds is 12⅛ per cent. The bonds are redeemable on March 8 1990.

'Big ticket' sales lift Christies

By Philip Coggan

CHRISTIES International, the auctioneer, reported a 31 per cent increase to £42.6m in pre-tax profits in 1988, thanks to sales of such works as Picasso's Acrobate et Jeune Arlequin.

That painting fetched £20.9m, the highest price ever paid for a 20th century work of art. And Christies also sold the Goetz Collection in New York for $85m, a record total for a single collection.

Around 44 per cent of its sales were of impressionist and modern art, up from 33 per cent in the previous year, but the group expects "old masters" to increase their share of sales this year.

Turnover was £120.3m (£96.7m). Pre-tax profits included net interest receivable of £2.09m (£2.16m). Earnings per share were 59.03p (45.41p). A recommended final dividend of 15p makes a total of 19p (13p). The company is proposing a three-for-one scrip issue.

● COMMENT

The quality of Christies expertise is rarely in doubt; it is the quality of the company's earnings that is normally questioned. The "big ticket" sales of Van Goghs and Picassos are good publicity but they cannot be guaranteed to recur year after year. Nevertheless, there is no sign yet of the long bull market in art coming to an end, and the stock market crash has left Christies untouched. Like the poor, the rich are always with us and if one country's millionaires are temporarily short of the readies, there seem to be plenty of other aficionados with the money for a Monet. The shares have had a good run at 825p and look fairly valued on a prospective p/e of 12.5, assuming profits of £47.5m this year.

Peek more than trebles to £8.4m

By Andrew Hill

PEEK, the expanding electronics and technology group, more than trebled pre-tax profits to £8.37m in 1988, against £2.51m last time.

Turnover rose from £14.7m to £44.9m and earnings per share from 1.8p to 2.8p.

Peek had about £28.8m of cash in the balance sheet at the year-end. About £14m was used after the year-end to buy Polytechnic Electronics and Transys Corporation of the US.

● COMMENT

Peek's purchase of Dubilier last year looks like the key strategic move in the group's recent history: it gave Peek the bulk to attract smaller companies into the fold, and the cash to maintain the momentum. Mr Maud is now keen to play down the lower-margin connector business, which accounted for 39 per cent of last year's turnover in the seven months since the acquisition. As if to emphasise that Dubilier's was merely a springboard to higher things, Automatic Connectors in the US is up for sale, and it seems likely that the rest of the Dubilier subsidiaries will follow. That would leave Peek free to focus on the creative application of other more advanced technologies in the group, for example in traffic control, land navigation, and portable mini-computers. Pre-tax profits of about £13.5m this year, excluding acquisition contributions, would put the shares – up 2p to 46p yesterday – on a prospective multiple of 15, a well-deserved premium to the market.

BSG exceeds hopes with £23m

BSG International, the Birmingham-based motor dealer, yesterday beat analysts's forecasts with a 28 per cent increase in pre-tax profits to £23.14m (£18.03m) for 1988.

A rise in the tax charge held earnings growth back at 14 per cent, from 7.03p a share to 8.01p, but a final dividend of 2.34p is proposed (1.4p), producing a 50 per cent increase for the year from 2p to 3p.

Sales on continuing operations rose by 13 per cent from £476.5m to £539.3m.

The largest slice of the profits increase came from vehicle distribution, which lifted trading profits from £8.04m to £11.01m.

● COMMENT

At a brief glance, BSG looks overvalued against other motor dealers: on least optimistic forecasts of £26.5m this year, the shares are on a prospective multiple of a little over 9. But the bull argument is that 1988 and 1989 are years in which heavy capital spending is coinciding with a rise in the tax charge, and next year is the one when BSG will really perform. By then, several of the group's operations will be operating out of new and more efficient factories, demand for child safety products will have been boosted by further legislation, problems with the UK pram and pushchair operation will be a distant memory, and substantial profits from the Boeing 737 contract will be flowing through. The Restmor experience suggests an element of caution over this rosy scenario, but the long-awaited downturn in motor sales would have to be severe to outweigh the prospects. Add in the interest prompted by T. Cowie's stake, and the shares might even begin to look cheap.

Clyde Petrol earnings fall by £1m

By Steven Butler

CLYDE PETROLEUM, the UK oil exploration and production company, yesterday reported a drop in net earnings for 1988 to £3.1m against £4.1m a year earlier, reflecting the weakness of oil prices throughout 1988.

Turnover, however, rose from £36.8m to £40.3m, while cash flow increased from £18.2m to £21.3m. The company paid a full year dividend of 1p, after the company passed dividend payments for two years in a row.

Clyde's proven and probable reserves showed a substantial rise through the year, finishing at 172m barrels of oil and oil equivalent, a 48 per cent increase. The increase was mainly accounted for by Clyde's acquisition of the Dutch gas interests of Newmont Mining for $234.3m in September.

● COMMENT

Clyde Petroleum paid a dividend this year and is already musing about what to do with the huge increase in its cash flow that is on the way as production rises and – with fingers crossed – oil prices stay high. It is a challenge, and a risk for shareholders, because a company that has survived and grown while prices for its only product plunge, will not necessarily prove high performer, or a clever investor, in a completely different environment. But that is a distant worry. The company's recent exploration successes are still not fully reflected in its share price, making it one of the cheaper oil stocks. With promises of higher rewards for shareholders, and an end to expansion by issuing paper, there is little in sight to drag the shares down again.

Allied Partnership profits advance to £9.85m

By Vanessa Houlder

THE SALE for £4.4m of a property development site helped Allied Partnership Group, building services and plant hire company, more than double profits in 1988.

Pre-tax profits rose from £3.61m to £9.85m on turnover of £81.4m (£59.0m). Excluding the property sale, which was an exceptional item, pre-tax profits rose by 50 per cent to £5.42m.

At the same time, the company announced a placing of 6.9m new shares to raise £2.67m for the deferred payments due for Tiger Rail, the railcar leasing company. It also placed a further 3.2m shares to raise about £2.2m, which will be used to refinance three small acquisitions, which cost a total of £2.2m.

Mr Martyn Rose, chairman and chief executive, said that the forktruck hiring and distribution businesses had a "restrained" year, due to the effects of relocating depots and investing £5m on expanding the hire fleets.

The railcar leasing and freight activity at Tiger Rail performed strongly.

The Dew Group, the construction-based part of the group, saw profits improvements within every division. In February, the property development business disposed of its interest in Suntech 308, a high tech development, for £6.5m.

Earnings per share increased from 4.22p to 10.26p. A final dividend of 1p will be proposed, bringing the total up to 2p - an increase of 33 per cent.

● COMMENT

Allied reckons it would have several advantages over most equipment hire companies in the event of an economic slowdown. Its broad spread of customers and its emphasis on specialist niches might help cushion it from the effects of increased competition. Furthermore, its emphasis on leasing would delay the full force of any downturn. In addition, its gearing is now 40 per cent, modest by leasing standards. Notwithstanding all that, uncertainty surrounding market conditions next year is likely to act as a brake on the share price. So too, is yesterday's placing which will water down the benefits of this year's likely profits jump. Assuming it makes pre-tax profits of £6.8m this year, the shares unchanged at 77p, are on a prospective p/e of 11.5m.

Automotive and aerospace strength helps Linread rise

By Richard Tomkins, Midlands Correspondent

CONTINUED strength in the automotive and aerospace markets helped Linread, the Birmingham-based special fasteners group, achieve a 26 per cent increase in pre-tax profits to £2.83m in 1988, against £2.28m.

About 50 per cent of the company's sales go to the automotive industry and another 30 per cent go to aircraft manufacturers. Linread said demand in both sectors remained high.

Turnover in 1988, however, advanced by a relatively modest 7.4 per cent to £37.4m (£34.8m). Mr Mike Hughes, chief executive, said the early part of the year had seen aerospace manufacturers cutting stocks, and on the automotive side, Linread had found difficulty in meeting demand.

Much of the profit increase was therefore attributable to wider margins stemming from a £1.2m investment in plant and equipment during the year and productivity improvements, particularly in the commercial products division.

Earnings per share increased by 22 per cent to 15.17p (12.47p) and a final dividend of 3.25p makes 4.75p (3.75p).

The group was keen to buy an overseas company - in Europe or the US on the aerospace side, and in Europe on the automotive side.

Competition in all the group's markets remained strong, Mr Hughes said, but he looked forward to further progress as long as demand held up.

JOBS

High present worth of longest-term perk

By Michael Dixon

"WE DON'T think very highly here of young people who ask about pensions," a certain 22-year-old was told by a prospective employer recently. "What our company wants is people who are committed to success, not hankering after security."

Since the young man had raised the offending topic on the Jobs column's advice, the next time we met he was plainly annoyed with me for losing him an opportunity. Nor was he much mollified when I argued that the company in question was probably not worth joining.

But I still believe my argument was right. One of my reasons for doing so is that, unlike the candidate, the company was failing to look ahead even to the near future when young recruits will be harder and harder to come by.

Admittedly it is far from alone in its lack of foresight. For instance, in 1987 the MSL International consultancy examined 1,000 executive-job advertisements appearing in Britain to see how many expressly barred applicants over the age of 40. The answer was 88.5 per cent. Lately, after two years of increasingly loud warnings from officialdom and the media about the impending scarcity of youth, MSL repeated the study to find what the proportion barring over-40s is now. It has gone down to 86.6 per cent.

So it seems that the bulk of British companies, at least, are set on learning about the decrease in the youthful population in the same way that one of Ernest Hemmingway's characters said he went bankrupt: "Slowly at first, then very suddenly."

Nobody is likely to learn the lesson more drastically than employers who think they can afford to expect young people to throw in their lot with an organisation without reck of their own longer-term interests. For those with ambitions to do well are no longer under the delusion that a salary is the only thing they can demand in return for their services.

The difference pension arrangements in particular can make to people's total rewards is illustrated by the latest "snapshot" from the continuously updated survey of executive pay and perks in Britain, maintained by the Noble Lowndes group. The study, covering 202 varied companies including City of London finance concerns, is unusual in that it assigns actuarially calculated "current cash" values to pension entitlements as well as in-kind benefits such as company cars.

Position	Sector	Salary £	Bonuses £	"Current cash" value of perks in £ a year: Car	Pension	Mortgage	Others	Total rewards
Chief executive	Finance	105,000	14,238	8,925	17,923	2,903	600	149,589
-do-	Industry	61,175	8,057	7,742	6,008	nil	535	83,517
D-P head	Finance	42,613	5,156	5,500	7,776	3,154	772	64,971
-do-	Industry	30,459	2,388	5,820	3,516	nil	357	42,540
Finance head	Finance	40,808	6,015	5,206	6,937	2,625	495	62,086
-do-	Industry	40,726	3,995	5,556	4,115	nil	698	56,090
Personnel head	Finance	36,536	6,300	5,259	6,688	3,009	560	58,332
-do-	Industry	34,407	3,882	5,900	3,895	nil	640	48,704
Admin head	Industry	39,228	3,282	5,200	4,400	nil	625	52,735
R&D head	Industry	37,309	2,438	5,834	2,565	nil	622	48,768
Co. secretary	Industry	33,896	3,563	5,370	3,723	nil	655	47,207
Sales & mktg head	Industry	30,614	3,582	5,867	3,490	nil	442	43,995
Production head	Industry	27,717	4,272	5,661	2,100	nil	500	40,250

The table above gives some of the latest findings on chief executives and heads of various specialisms. (Anyone wanting more data and details of how the current cash values are worked out should contact Don McClune, manager of Noble Lowndes's pay consultancy branch at PO Box 144, Norfolk House, Wellesley Rd, Croydon CR9 3EB; telephone 01-686 2466, fax 01-681 1458.)

My figures all refer to the median manager — the one who would be placed mid-way in a ranking of all in the same kind of job. And in the case of the four types of senior managers found both in finance organisations and in industry and commerce elsewhere, the table outlines the variances between the two sectors' rewards.

As may be seen, in total terms the City types are much better off than their equivalents in industry. But while the most prominent difference is the median finance-sector managers' enjoyment of subsidised mortgages, they have an even greater advantage in pensions as measured by the annual cost of funding the benefits they are entitled to receive when they retire.

On average, the current cash value of their pensions amounts to 17.5 per cent of their basic salaries. The corresponding figure for their industrial counterparts is a mere 10.1 per cent.

Mr McClune says the gap is largely explained by the fact that the City executives were in non-contributory pension schemes — which were in force in 82 per cent of the finance-sector concerns surveyed. But since the same applied in fewer than 5 per cent of the other kinds of companies, the equivalent industrial managers were required to fund a good part of their retirement package themselves.

The lesson for the recently rejected 22-year-old, and all others like him, is surely plain. It is to insist on asking every prospective employer about pension arrangements, with particular emphasis on whether they will benefit from a non-contributory scheme. And if all they get is a dusty answer, then write off the job. For, unlike the employer, they have time on their side.

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TECHNOLOGY

A price worth paying for acceptability

Paul Abrahams continues a series on industry's role in cleaning up the environment with an assessment of chemicals companies' efforts to limit their discharge of hazardous waste

Today the representatives of governments from all five continents are due to sign a treaty in Basle on the transport and disposal of hazardous materials. Although new controls will increase the cost of dealing with waste, the companies affected realise that they must give a high priority to protecting the environment.

Basle is an apt location. In 1986, a fire in a warehouse owned by Sandoz, the Swiss chemicals company, led to the discharge of 30 tonnes of toxic substances into the Rhine, with catastrophic effects on the river's ecosystem.

The impact of that accident has been to force companies to increase spending on environmental protection. Although Sandoz admits difficulties in isolating environmental expenditure from normal costs – accounting procedures have not been geared towards itemising money spent on the environment – the company estimates that in 1987 it spent SFr 208m (£75m) on running costs associated with handling waste, and it invested a further SFr 66m in capital equipment. Over the next few years, Ciba-Geigy has committed SFr 830m *to such measures.*

However, Basle's three main chemicals manufacturers, Sandoz, Ciba-Geigy and Hoffmann-La Roche, stress that the need to address environmental issues is not new. Since the early 1970s, when images of oxygen-starved fish floating dead down the river were flashed across European television screens, all three have attempted to use new technology to clean up the effluent issued into the river.

"There used to be a lot of discussion about where to get rid of harmful by-products," said Jurgen Volz, acting secretary general of Riwa, the Dutch-Belgian association of Rhine and Meuse water companies. "The chemicals companies used to argue that it was more economical to deal with pollutants downstream, where water companies had the technology to get rid of harmful substances."

That debate has ended, says Volz. At a conference last year, a spokesman for Ciba-Geigy stated that it was only through environmentally sound products and manufacturing processes that the chemicals industry would be able to maintain social acceptability – an important factor in its long-term survival.

The Basle companies now recognise both the need to safeguard the ecosystem (between the start of the century and 1984, 80 per cent of fish disappeared from the Rhine) and the river's importance as a source of drinking water for nearly 20m people.

As a result of efforts to reduce pollution, the Rhine is much cleaner than it was at its environmental nadir during the mid-1970s. Mercury levels have fallen below 0.1 micrograms (millionths of a gram) *per litre and the oxygen content* is such that there is now little risk of fish dying of oxygen starvation. Levels of organic compounds and inorganic pollutants, such as cadmium and arsenic, have also fallen.

Water companies based along the river have invested heavily. Between 80 and 90 per cent of sewage is now biologically treated before entering the river.

Much of chemicals companies' effort has been directed towards investment in equipment to treat liquid waste. A typical plant, breaking down as much as 80 per cent of biodegradable waste into harmless components, works as follows:

- Waste water, which tends to be acidic, is neutralised in a tank containing caustic soda or lime. Any alkaline substances are neutralised with sulphuric acid.
- The resulting liquid is then passed to a sedimentation tank where heavy particles are allowed to settle and are then fed into a sludge storage tank.
- Flocculation agents are added to the waste water to collect substances which are not easily biodegradable. Air is passed through the liquid to force the flocks to the surface where they are skimmed off.
- Next comes a biological purification process similar to that used for domestic sewage. This involves adding micro-organisms which break down the chemicals into harmless components. Oxygen is pumped through the liquid to accelerate the reaction.
- Finally, any remaining sludge is sent to the sludge tank where it is thickened by catalysts, subjected to centrifugal treatment to remove water and then incinerated. The ash is put in landfill sites and the *treated effluent is pumped* back into the Rhine.

Although this process has reduced pollution, much remains to be done. The industrial effluent discharged into the Rhine can hardly be described as mineral water, says Volz. Although the river's toxic heavy metal content is a tenth of what it was, it is still 10 times natural levels.

He points out that the sludge taken out of the port of Rotterdam, where the river slows and larger quantities of sediment are deposited, is so heavily contaminated, for example with arsenic, that it has to be put in special storage tanks.

Another pollutant is salt, which enters the river from factories and potassium mines in Alsace, and its level is increasing. At the Dutch border the chloride level in the Rhine is 400 milligrams a litre, whereas the natural level would be about 20 mg. This means that 50,000 tonnes of salt are crossing the German-Dutch border every day.

The three Basle companies accept that they still need to do more to reduce pollution. Although the effluent they produce daily is within standards set by the Swiss authorities, risks remain. It has been pointed out, for example, that normally acceptable pollution loads could still lead to dangerously high concentrations if the river's volume dropped during a drought.

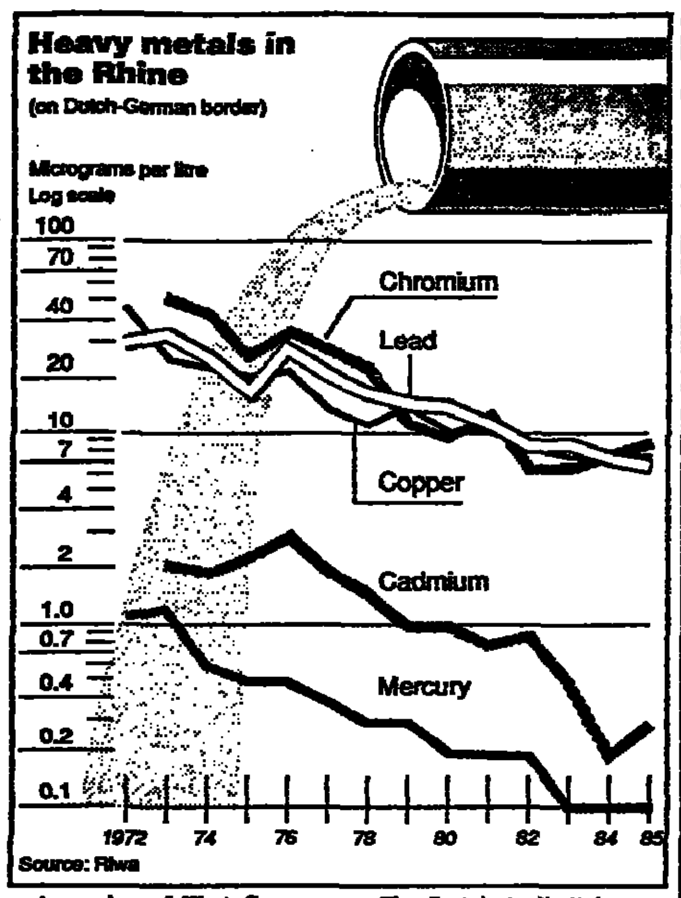
The main focus of their efforts is to increase capacity for dealing with sludge, non-biodegradable and poorly biodegradable substances by using rotary kilns. Incinerating this type of waste, rather than dumping it in the ground, reduces the risk of hazardous substances leaking into the water table and subsequently *into the public supply.*

Ronald Schlegel, product manager of W+E Umwelttechnik, the Zurich manufacturers of rotary kilns, explains that this technology breaks down a wide range of dangerous chemicals. In Rotterdam, one rotary kiln plant is able to burn out more than 99 per cent of waste sent there, producing relatively harmless combustion gases.

At temperatures as high as 1,400 deg C, wastes are broken down without creating hazardous substances, such as hydrochloric acid, sulphur dioxide, nitrogen dioxide and dioxins, which appear at lower temperatures. Also less ash is produced.

"There has been an explosion in the demand for rotary kilns as companies and municipal authorities recognise the need to become environmentally conscious," says Schlegel. "We estimate that there could be as many as 40 new projects using these incinerators over the next 10 years."

Schlegel explains that the trend towards rotary kilns has been accelerated by a decision to end the incineration of hazardous waste on ships in the North Sea by 1994. Public concern about burying waste has also been significant. The bill for making these dumps safe can be high: it recently cost SFr 20m to decontaminate a site near Basle.



Source: Riwa

A number of West German companies, such as MAN, have started moving into the sector to compete against existing manufacturers, which include Deutsche Babcock and Von Roll. Schlegel says that this is hardly surprising when the market is growing so quickly and a plant capable of handling 50,000 tonnes a year can cost SFr 50m.

Rotary kilns are also expensive to run. Some incinerators need their linings changed after every 8,000 hours of operation, at about DM200,000 a time. As a result it costs between two and ten times more to incinerate waste than to dump it in landfill sites. Jurg Straub, an administrator in the safety and environmental protection division of Hoffmann-La Roche in Basle, estimates that it can cost between SFr 400 and SFr 1,000 to process each tonne of waste.

For this reason, as Straub points out, "it's much more cost effective to control the production of waste in the first place, than to be forced to go to the expense of making it safe afterwards."

There are two main ways of minimising waste, says Gotti Eigenmann, manager in charge of audit and staff environment at Ciba-Geigy.

The first is to limit its production during manufacture through what the company calls "clean technologies". This involves optimising production processes: more efficient chemical reactions create less waste. It is also necessary to reject processes which pose insoluble disposal problems or which carry unacceptable risks.

The second method is to recycle as much as possible. Ciba-Geigy, for example, has managed to increase the percentage of raw materials that end up in finished products from about 30 per cent in 1970 to approximately 60 per cent by 1988. Hoffmann-La Roche estimates that it recycles 60 per cent of the solvents used in manufacturing, while Sandoz says that it is able to re-use more than 10,000 tonnes of waste material every year.

Although environmentalism costs money, the Swiss are willing to make the investment.

"The sophisticated techniques available to deal with waste do lead to higher costs," admits Eigenmann. "But as long as such technology is used everywhere, these additional costs cause no insurmountable problems."

Previous articles in the series appeared on March 6, 9, 10, 15 and 17.

Health warning over asbestos substitutes

By Thomas Land

DENMARK'S Labour Inspectorate is expected shortly to place several widely used non-asbestos insulating fibres on its list of carcinogenic substances. Other countries may follow suit.

The move follows disturbing research results, which have attracted the attention of doctors and law makers, as well as that of the industries using asbestos substitutes to protect the health of their workers. It is believed that some of the alternative materials also pose a health hazard.

The implications are considerable. The magnitude of the asbestos issue was first admitted at a conference in Montreal in 1981, attended by representatives of the medical and scientific communities, labour movements and industries of 60 countries. The meeting sought a common direction for research into asbestos substitutes as well as criteria for regulation.

Annual world production of asbestos has risen from 675,000 tons in 1940 to more than 4m tons in the 1980s. It is used in a variety of industrial products, but more than two thirds of it goes to the construction industry for asbestos cement. The use of this product will be severely restricted throughout the European Community in 1990.

Millions of workers remain at risk of inhaling significant amounts of asbestos dust. In the US, asbestos suits comprise nearly half the product-liability cases brought before courts every year.

Asbestos substitutes are widely employed by many industries, partly because of the growing restrictions imposed on the use of asbestos and partly because of the increasing demand for insulating materials for energy conservation.

The problem is that some materials hitherto considered safe are now believed to cause lung cancer.

Dr Ole Svane, chief physician of the Danish Labour Inspectorate, says: "As with asbestos, it takes about 20 years before the effects manifest themselves. But it is feared that a large number of building workers will get lung cancer in the coming years due to working with mineral fibres."

Danish research into the carcinogenic effects of mineral fibres has concentrated on glass fibre as used in wool matting. Svane believes that other forms of mineral fibres, made from stone and slag materials, are equally dangerous.

He explains: "Our common sense and professional knowledge tells us that these new types of fibre are just as dangerous as asbestos because they have the same properties. There is therefore every reason to subject them to regulation."

He doubts whether printed warnings on the materials would be sufficient and seeks more active safety measures.

A European survey of 22,000 workers in the mineral fibre industry over the half century to 1982 showed an above-average mortality rate of 25 per cent due to lung cancer.

Some materials hitherto considered safe are now believed to cause lung cancer

A lung cancer risk in the industry was documented in scientific papers put before a recent Copenhagen symposium organised by the International Agency for Research on Cancer and the Joint European Medical Research Board.

The Labour Inspectorate has also found that mineral fibre density in the air is 10 times higher during certain types of installation of insulating materials in the building industry than during the production of the materials.

Guidelines laid down by the industrial safety council of the Danish Building Trade Employers Federation recognise the danger by stating that mineral fibres "can cause an increased frequency of bronchitis, dust-related drug illnesses and lung cancer."

Strong demand brings big rise in diamond prices

By David Blackwell

STRONG CONSUMER demand for gem diamonds has prompted a second big rise in under 12 months in the price asked by De Beers' Central Selling Organisation for rough (uncut) stones.

The increase of 15¼ per cent is the biggest imposed in recent years by the organisation, which controls 85 per cent of the world market. It will be implemented at the next sale (known as a sight) on March 28.

At the beginning of May last year the organisation raised prices by 13½ per cent because of buoyant demand. But by October trade demand had slackened and the organisation reduced supplies of roughs to cutting and polishing centres.

Mr Andrew Lamont of De Beers said yesterday that the market had slowed down towards the end of last year on fears of rising interest rates and speculation that Japanese demand would be affected by the prospective death of Emperor Hirohito.

But trade demand had picked up again this year. Consumer demand has remained buoyant, particularly in Japan where the yen remains strong against the dollar and disposable incomes are high. Sales in Pacific Rim countries and Europe were also good.

The trade, which had expected the price increase, believes that demand will remain strong. The organisation sold a record $4.2bn worth of rough diamonds last year, up from $3.07bn in 1987. World retail diamond sales rose 14 per cent in 1987 and figures for last year, to be released soon, are expected to show similar growth.

Mr Peter Miller, an analyst with London-based Yorkton Securities, said the increase underlined the buoyancy of the diamond market. "It is one of the few commodities where you can put your hand on your heart and say that supplies are significantly below demand," he said yesterday.

Mr Miller estimates that the supply of newly mined diamonds is running at 20 per cent below demand – the deficit being made up from the Central Selling Organisation's enormous stocks.

The deficit is sparking off more mining activity. Last week Consolidated Diamond Mines, De Beers' wholly-owned Namibian subsidiary, said it would develop a R135m (£30m) diamond mine at Elizabeth Bay on a remote part of the coast of the Namib desert. In November last year the company announced a new mine at Auchas on the Orange River.

Analysts also believe the company is at long last considering opening the Venetia deposit in South Africa's Northern Transvaal – which some observers say the company has held back on to keep the market tight.

Caribbeans cash in on bauxite demand

Canute James on efforts to rebuild the region's sagging share of export markets

THE RELATIVELY healthy state of aluminium demand has generated a recovery in the Caribbean bauxite industry. But producers are aware that their improved fortunes could quickly be undermined by a down swing in this highly cyclical market.

New mines are being reopened and refineries are being rehabilitated and expanded, with output rising in the region's three main producing countries, all of which are heavily dependent on the mining sector for foreign earnings.

The changes are most dramatically illustrated in Guyana, which has been trying for the past five years to lift ore output above an average 1.5m tonnes per year. Now two new mining agreements with foreign companies mean the country's production is set to triple in the next two years.

In the first of the new contracts the state-owned Guyana Mining Enterprise will supply Interalumina of neighbouring Venezuela with 1.1m tonnes of bauxite over the next three years. The Guyanese company will ship 400,000 tonnes in each of the first two years, and 300,000 tonnes in the final year.

The ore is to be mined at Kwakwani in eastern Guyana by Dayco, a Venezuelan company, which will open new mines and transfer the bauxite to Guyana Mining Enterprise, which will then ship it to Venezuela.

This deal was followed by an agreement with Reynolds International, a wholly-owned subsidiary of Reynolds Metals of the US, to establish a US$25m joint venture to produce 2.6m tonnes of bauxite ore per year. The operations will be located at Aroima on the Berbice River, where the new company construct docks and other infrastructure, with mining scheduled to begin by the end of this year.

The agreement means a return to Guyana by Reynolds, whose mining operations in the country were nationalised in 1975. The new venture follows the completion last year of compensation payments for the nationalised facilities, with the Government paying annual instalments of $10m for the past 13 years.

The US company's new involvement in Guyana also follows the drafting of a new foreign investment code by the Guyana Government, offering incentives for foreign companies to operate in the country, and guaranteeing the protection of their property and their ability to repatriate profits.

But the optimism in Guyana's bauxite industry has been dampened by a strike which has shut down some mines after Guyana Mining Enterprises said it no longer recognised the unions representing miners.

In neighbouring Suriname the mining, refining and smelting operations have recovered after being paralysed a year and a half ago by a simmering civil war. Anti-government guerillas had forced the evacuation of residents of the key mining town of Moengo, and had cut power lines, causing the closure of the country's refinery and smelter.

Ore was imported from the Dominican Republic and Brazil to feed the smelter, but there were strong indications of a recovery last year when the fighting subsided and Moego was reopened. The industry, which is run by the Suriname Aluminum Company, a subsidiary of the Aluminum Company of America, and by Billiton, an arm of Royal Dutch Shell, last year exported 1.6m tonnes of alumina (aluminium oxide), and 7,600 tonnes of aluminium.

Shipments of metal are likely to be higher this year as the 60,000 tonne-a-year smelter was in operation for less than a half of last year. But a row between the Government and the companies over new investments is threatening the future expansion of the industry. Suralco and Billiton had proposed new investments totalling $150m to update ageing equipment and open new mines to replace those which will be exhausted in a few years.

The Government has agreed that the new investments are necessary to guarantee the future of the industry, but is reluctant to entertain the companies' request that they be granted some tax incentives, and that their operations be conducted at a more favourable exchange rate than the current official rate. Government officials have suggested that if these concessions are granted to the companies, other sectors could justifiably make similar requests.

"We can keep going for only another two years after which we will need the new mines and improved plant to guarantee production," said a representative of Suralco. The investments would not be committed until there was "a change of attitude" by the Government, he said.

> "All the countries are aware of the boom-and-bust cycle of this industry. . . What goes up, in terms of metal prices and demand, must come down."

A move by the Jamaican Government to satisfy long-standing complaints by the North American companies operating in the island has set the stage for the recovery of the island's industry which suffered when output fell by a half between 1980 and 1985. Following changes to a controversial production tax, the island's largest refinery, a 1.2m tonnes-a-year plant, is being reopened this month.

The refinery is jointly owned by Kaiser Aluminum and Reynolds Metals, but Reynolds is selling its half of the business to Kaiser and Hydro Aluminium of Norway. About 200,000 tonnes of ore have already been mined for processing which will begin by March 31, with alumina exports scheduled to start by the end of May. The plant is likely to produce at just over half its rated capacity for the first year.

The reopening of the refinery, which was closed in 1985, coincides with plans to expand the capacity of another refinery, owned by the Alcoa and the Government, by 300,000 tonnes a year to 1.1m tonnes. The Aluminium Company of Canada, which operates two refineries in Jamaica, are bringing these up to full combined rated capacity of 1.1m tonnes per year. Industry officials say the expansions by Alcoa and Alcan were "directly related" to reductions made last year in the production tax.

The expansions and the reopening of the refinery this month are likely to lift Jamaica's ore production this year to about 9m tonnes, compared with actual output of 7.41m tonnes last year, but still below the peak production of 12m tonnes in 1980. Industry officials say also that the island could gain from the reopening of mines closed three years ago by Reynolds Metals to supply a refinery in the US Virgin Islands, which a company owned by Marc Rich, the commodity trader, is interested in purchasing from Martin Marietta of the US.

"The Caribbean region could eventually get back the 35 per cent share of the world market which it once held," suggested a Jamaican government official. "But all the countries are aware of the boom-and-bust cycle of this industry. What goes up, in terms of metal prices and demand, must come down. We are all hoping it will be some time before it comes down, and that when it does it will be a gradual fall."

Reports of French selling push cocoa market lower

By David Blackwell

COCOA PRICES fell sharply on the London Futures and Options Exchange (Fox) yesterday following reports that Sucres et Denrees, the French trade house that has bought a large amount of Ivory Coast cocoa, had started selling.

Sucden was said to have sold 50,000 tonnes to an international operator, as well as making some sales to industry. Ivory Coast shipments are arriving at Amsterdam.

The Fox second position contract in the afternoon fell below £800 a tonne for the first time since last October, before closing at £802 a tonne, down £30 on the day.

Analysts and traders alike were certain that Sucden was selling both physical cocoa and futures positions yesterday. Sucden would not confirm or deny the reports.

"One thing is certain," said Mr Tony Chadwick, cocoa analyst with Prudential Bache, "Ivory Coast cocoa is flooding onto the market at lower and lower levels."

At the beginning of the year Sucden concluded a deal with the Ivory Coast, the world's biggest producer, for 400,000 tonnes of cocoa. The Ivory Coast for most of 1988 was refusing to sell its cocoa for less than FFr 1,200 per 100 kilograms while terminal market prices were continuing to fall.

Sucden has since started negotiations for a further 125,000 tonnes. The Ivory Coast policy has helped to hold terminal market prices up so far this year, but once reports of Sucden selling came in, prices were bound to fail, said Mr Chadwick.

The greater availability of Ivory Coast cocoa prompted some traders to sell off cocoa from other countries of origin, and the premiums on other West African cocoas eased sharply.

Growing coffee sales seen in South-east Asia

COLOMBIA'S NATIONAL Federation of Coffee Growers has pinpointed South-east Asia as a growing market for its high-quality coffee, reports Reuter from Bogota.

A study by a federation commission said: "The countries of the Pacific basin should be seen as a whole now that they represent a far from low-ranking potential in the consumption of coffee in the world and above all an enormous potential for the future.

"In the markets of Singapore, Taiwan, Australia and Hong Kong the main objective should be to reach a participation there of between 16 and 30 per cent of each market," it said.

It said coffee growers should aim Colombia's highest quality coffee at Japan, to boost market share there.

The study said Colombia's market share in Japan had grown from 4 per cent to 15 per cent over the past decade.

WEEKLY METALS PRICES

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 2,075-2,140 (same).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 6.50-6.85 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, ingots 7.20-7.50 (7.40-7.65), sticks 7.20-7.50 (7.40-7.65).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 7.40-7.70 (same).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 260-285 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 3.80-3.90 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 7.50-8.30 (same).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO, cif 55-64 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb VO, cif, 10.20-10.50 (10.20-10.70).

URANIUM: Nuexco exchange value, $ per lb, UO, 11.60 (same).

Environment plan will top up UK set-aside payments

By Bridget Bloom, Agriculture Correspondent

THE BRITISH Government has announced a new scheme to give additional payments to farmers who take arable land out of production but follow good environmental practices at the same time.

The scheme is seen as topping up the so-called set-aside programme for arable land which was introduced last October under regulations of the European Community's common agricultural policy.

Neither precise payments nor the total cost of the scheme are yet known, according to officials.

However, Mrs Virginia Bottomley, junior environment minister, said in answer to a parliamentary question this week that under the scheme, farmers would be invited to adopt one or more specified management practices intended to increase nature conservation, improve landscape value or give public access to land.

Initially the top-up scheme would be "targetted to certain parts of England," to be announced later, "where scope for environmental improvement seems greatest."

Under the existing set-aside scheme, farmers can receive between £130-£200 a hectare for leaving land fallow or covering it with woodland or a crop such as clover to be ploughed in at the end of the season.

The scheme was scheduled to cost £16m in the current year and £22m in 1990-91 and 1991-2. However, uptake has been slow with only some 1,300 farmers putting 40,000 hectares into the scheme in England.

The top-up scheme is to be administered by the Countryside Commission, the Government's watchdog on the environment, which, with other environmental bodies, has keenly supported its introduction.

Fishing banned around sunken pesticide

By David Blackwell

ALL FISHING has been banned near the container of deadly pesticide lost in the Channel from a sunken Indonesian container ship, the British Ministry of Agriculture, Fisheries and Food announced yesterday.

The Ministry said that an order under the Food and Environment Protection Act prohibited fishing within a 12 km radius of where the container of Lindane, one of the world's most dangerous pesticides, is believed to have sunk.

The ban extends to the landing or sale anywhere in the UK of fish caught in the restricted area.

There has so far been no evidence of any leakage from the container or from the wreck of the boat, the Ministry said. The Ministry is taking further samples of both fish and water in and around the area.

China to lop 40% off its timber imports

By Lynne Curry in Peking

DESPITE a severe wood shortage, China has announced plans to cut its timber imports by nearly 40 per cent this year.

The official English language China Daily said the move was part of nation-wide efforts to curb economic growth and capital construction. It comes at a time when concern is mounting in Peking over inflation and the overheated state of the economy.

"This is a dramatic decrease, but everyone was expecting imports to be down anyway because international timber prices are a little higher this year," one observer said.

One of the world's leading timber importers, China last year imported about 10.5m cubic metres of timber compared with 6.4m cu m in 1987, according to the state statistical bureau.

The new policy means that the world's timber exporters will lose an estimated $440m in the China market, China Daily noted.

China imports most of its timber from the US. Last year, US timber imports nearly tripled to $450m from $165m in 1987, a diplomat said.

Canada, New Zealand, Brazil, Chile, Malaysia and East European countries also supply timber and logs to China.

In addition China does an extensive barter trade in lumber with the Soviet Union. One observer said this was likely to be stepped up with the decrease in conventional imports.

China, which has a severe wood shortage, has a policy against using wood in certain industries and stipulates that substitutes must be used wherever possible. Diplomats said erratic enforcement of this policy has led to violent swings in timber imports from year to year.

WORLD COMMODITIES PRICES

LONDON MARKETS

NICKEL prices retreated on the LME yesterday following news that Outokumpu, the Finnish mining group, had lifted its force majeure notice at its Harjavalta smelter. Dealers noted that the recent downtrend was only briefly halted by the notice 11 days ago, and said that merchant selling still appeared to be weighing on the market. They expect further weakness unless significant fresh consumer enquiry emerges. Zinc prices fell for the seventh consecutive day, with further liquidation and sell stops triggered by a fall in three-month high grade metal below $1,750 a tonne in the afternoon. Coffee prices fell sharply, the fall in May prices below £1,140 a tonne in the morning inspiring chart selling and taking the market below the recent stable range.

SPOT MARKETS

[illegible]

COCOA £/tonne

[illegible]

COFFEE £/tonne

[illegible]

SUGAR ($ per tonne)

[illegible]

LONDON METAL EXCHANGE TRADED OPTIONS

[illegible]

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

[illegible]

POTATOES £/tonne

[illegible]

SOYABEAN MEAL £/tonne

[illegible]

FREIGHT FUTURES $10/index point

[illegible]

GRAINS £/tonne

[illegible]

JUTE

[illegible]

COTTON

[illegible]

LONDON BULLION MARKET

[illegible]

CRUDE OIL $/barrel

[illegible]

GAS OIL $/tonne

[illegible]

US MARKETS

A LOWER than expected increase in consumer prices weakened the metals with gold falling to a low of $394.20 basis April, reports Drexel Burnham Lambert. Commission houses and managed funds were featured sellers in the silver. Platinum futures slipped in quiet dealings. Copper rose 145 basis May on some local short covering late in the session. In the softs, light trade and commission house selling forced sugar prices down. General short covering pushed cocoa futures higher. Speculative long liquidation sank the coffee market. The livestock markets featured mixed activity. Live hogs were lower due to commercial selling and the recent slow movement of pork products. Cattle prices were firm as a higher cash market and lack of slaughter ready cattle supported the futures. Pork bellies were mixed in mostly local dealings. The grain markets featured follow through speculative buying in the soy complex before local selling near the close eliminated any gains. Wheat futures made a slight recovery as China tender activity may occur. Forecasted rains due for the wheat belt were not as much as expected.

New York

GOLD 100 troy oz.; $/troy oz.

[illegible]

PLATINUM 50 troy oz; $/troy oz.

[illegible]

SILVER 5,000 troy oz; cents/troy oz.

[illegible]

INDICES

[illegible]

COPPER 25,000 lbs; cents/lbs

[illegible]

CRUDE OIL (Light) 42,000 US galls $/barrel

[illegible]

HEATING OIL 42,000 US galls, cents/US galls

[illegible]

COCOA 10 tonnes;$/tonnes

[illegible]

COFFEE "C" 37,500lbs; cents/lbs

[illegible]

SUGAR WORLD "11" 112,000 lbs; cents/lbs

[illegible]

COTTON 50,000; cents/lbs

[illegible]

ORANGE JUICE 15,000 lbs; cents/lbs

[illegible]

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

[illegible]

SOYABEAN OIL 60,000 lbs; cents/lb

[illegible]

SOYABEAN MEAL 100 tons; $/ton

[illegible]

MAIZE 5,000 bu min; cents/56lb bushel

[illegible]

WHEAT 5,000 bu min; cents/60lb-bushel

[illegible]

LIVE CATTLE 40,000 lbs; cents/lbs

[illegible]

LIVE HOGS 30,000 lb; cents/lbs

[illegible]

PORK BELLIES 40,000 lbs; cents/lb

[illegible]

LONDON STOCK EXCHANGE

US prices data boosts share prices

A GOOD recovery was staged by UK equities yesterday when interest rate worries lifted a little after the latest US consumer prices data proved better than feared. This slackening of tensions over international inflation pressures enabled London to respond more positively to the favourable domestic money supply statistics, disclosed on Monday.

Internal factors also helped the UK market. At least two major UK securities houses were taking a bullish stance, and the FT-SE March contract pushed ahead to a 10 point premium. Excellent profits figures stirred heavy turnover in Prudential, the major UK life assurer, while the market's recent focus on construction shares intensified following higher earnings from Wimpey.

Account Dealing Dates		
*First Dealings:		
Mar 13	Apr 6	Apr 13
Option Declarations:		
Mar 30	Apr 13	May 4
Last Dealings:		
Mar 31	Apr 14	May 5
Account Day:		
Apr 10	Apr 24	May 15

*New time dealings may take place from 9.00 am two business days earlier

The day's gain of 18.8 to 2072.2 in the FT-SE Index was achieved despite falls in brewery issues after the long-awaited report from the UK Monopolies and Mergers Commission (MMC) described brewery ownership of public houses as against the public interest. Scottish & Newcastle, a constituent of the Footsie, collapsed after the MMC blocked the £1.6bn bid from Elders IXL of Australia.

Equities gained ground in early trading and then went into faster gear on the news that US consumer prices had risen by only 0.4 per cent in February. London anticipated a good start by Wall Street.

The market advance was reflected in higher, if still relatively modest, turnover, with Seaq volume at 447.2m shares, against Monday's 384.6m. While this figure included the selective activity among the brewers and profit-reporting companies, there were also signs of bargain hunting by the institutions for such blue chips as BAT Industries, GEC, Beecham and ICI.

"There was a sigh of relief at the US consumer prices data," said one analyst. The London market had braced itself for a gain of 0.5 per cent last month; indeed traders at one major London house were warned at their morning meeting to stand by for a 0.7 per cent rise. Any figure above 0.6 per cent would have been expected to provoke a tightening in Federal Reserve credit policy.

The US prices news appeared to be a new and favourable development in the conflict between international and domestic factors currently affecting the London market. UK market analysts suggest that there is no case on domestic grounds for raising UK base rates from their present 13 per cent level.

This week's February money supply data has strengthened belief that high interest rates are cutting into consumer spending, and the market seems confident ahead of the announcement, expected tomorrow, of the UK Retail Price Index for February, and also of the UK trade figures, due next week.

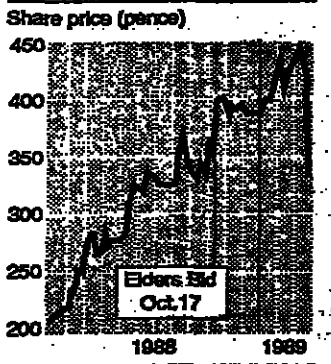
Shocks for the brewers

A hectic Brewery sector dominated the market throughout the day after the Mergers and Monopolies Commission (MMC) first, and unexpectedly, blocked the £1.6bn bid by Australian group Elders IXL for Edinburgh-based brewer Scottish & Newcastle (S&N) and then, less surprisingly, decreed that the brewery tied house system be partially dismantled.

The blocking of the Elders bid was described by one trader as an "unbelievable shock" and the S&N price dropped sharply on the news, closing 89 lower at 329p on turnover of 13m shares. However, with Elders compelled to

Scottish & Newcastle

Share price (pence)



sell over half of its 23.6 per cent stake, dealers said that the price could recover if Elders passes a large chunk of S&N on to hostile hands. One analyst also commented that the MMC's tied house report made S&N a more attractive target because of the group's long experience of dealing in the free trade.

The Elders/S&N decision knocked the sector, with likely bid targets such as Wolverhampton & Dudley (down 19 at 436p) and Greene King (down 34 at 559p) particularly badly hit.

Ties loosened

When the MMC tied house report was released at 3.30pm, it was the leaders which initially weakened further before recovering in late trading as marketmakers took a more positive view of the report's recommendations. Some dealers concluded that regional brewers should benefit as free trade publicans looked for new ranges of beer to sell, while the leading brewers, although troubled by having to sell so many of their pubs, would at least improve the look of their balance sheets by the realisation of assets.

Yet some analysts were concerned about the longer term repercussions. Mr Martin Hawkins of Kitcat & Aitken described the Commission's recommendations as "an unnecessary division of the growing management skills of brewers which will force them into artificial restructurings just when they're getting on with the job of providing a decent range of amenities and services to the consumer."

The market also kept in mind the European Commission's own investigation into the industry which, dealers said, could further complicate the outlook for the sector. At the close, the late rally left the big brewers with relatively small losses; Bass were down 4 at 923p on turnover of nearly 5m shares, Whitbread "A" were 2 easier at 344p and Allied Lyons – where a seller of 3m restricted a recovery – were 14 weaker at 458p on turnover of 11m shares. Grand Metropolitan, which is increasingly expected to sell its brewery division, rose 7 to 550p.

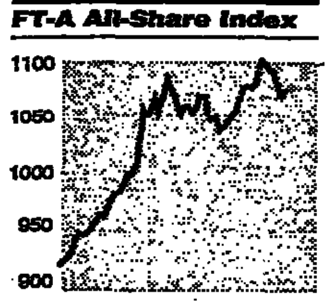
Among regionals Boddington dropped 7 to 182p, Devenish lost 8 to 331p and Vaux slipped 6 to 206p. Greenall Whitley were an exception, adding 4 at 307p, while Guinness, which has no tied houses, closed 12 firmer at 429p with dealers anticipating a good set of figures next week.

Troubled agency

Recent hints that Saatchi & Saatchi could be experiencing declining fortunes became stark reality when Mr Maurice Saatchi, chairman of the world's largest advertising agency, warned shareholders at yesterday's annual meeting to expect a substantial shortfall in first-half profits. Prospects for the second six-months look more promising, said Mr Saatchi, but the overall result would be lower than the £138m achieved in 1988.

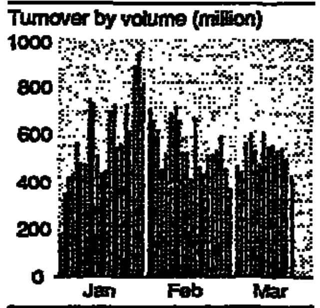
Several houses have downgraded Saatchi stock recently, clipping this year's profit predictions to around £155m. But the market was still unprepared for Mr Saatchi's warning which put all market estimates well out of court. Mr Richard Dale of James Capel was

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)



among the first to revise his forecast, suggesting £95m as the most optimistic amount for 1989. Ms Lorna Tilbian at Warburg Securities opted for the same figure.

A rush of intra-market business developed as domestic and US traders attempted to unwind their positions and the shares fell dramatically. Several UK houses were reported to have been badly hit and, although trade eventually became more evenly balanced, the shares made little positive recovery. They closed 60 down at 318p, only 10 off a fifteen-month low point, after turnover of 8.7m shares.

Wimpey advance

George Wimpey shares raced higher in the wake of the much-better-than-expected preliminary results and signs of further stake-building in the stock. The shares were 8 higher at 308p on turnover of nearly 9m shares.

One UK securities house was said to have been a buyer of some 4.5m shares and this triggered stories that FAI Insurances of Australia had been back to top up its stake, last revealed as around 3 per cent.

The full-year results – pre-tax profits 51 per cent higher at £144.5m and dividend 37.5 per cent up – were described by Mr Angus Phaure, County NatWest's building analyst, as "miles better than anyone expected."

Mr Phaure says that investment fundamentals have now replaced the bid premium in Wimpey shares, as the chance of a bid has largely disappeared. Sir Clifford Chetwood, Wimpey chairman, told analysts *that the Grove Charity* Trust's 35 per cent stake would not be sold on to a bidder.

The County analyst expects Wimpey to achieve pre-tax profits of £160min 1989 with "further good growth" in 1990, but warns that "an interest rate rise in the US, and consequently here in the UK, would knock the housing market stone dead."

Prudent assurer

Prudential, the leading UK life assurance group, shot 11 higher to 188p after revealing impressive preliminary results and moves to beef up its balance sheet. The latter moves dispelled fears in the City that the company may have to launch a rights issue. Turnover in the stock expanded sharply, eventually reaching 17m shares, well in excess of normal levels.

Prudential's pre-tax profits were some 40 per cent higher at £339.6m, well ahead of forecasts which had ranged up to £320m. The increased total dividend of 8p a share was in line with expectations.

Mr Trevor May, insurance analyst at Nomura Research, was unreservedly bullish about Prudential in the light of the figures. "The shares are worth 20p and should yield the same as Legal & General," said Mr May, who has upped his forecast of Prudential's profits next year to £405m. But Mr John Russell at Pru-Bache was less enthusiastic: "Watch for the slow down in growth when the one-offs work their way out - sell into strength is our view."

Analysts were divided over the reasons for Unilever's weakness against the market mood. One source said current quarter trading was "distinctly flat" and warned that the £10m cost of the Bird's Eye factory closure, announced a fortnight ago, would press *bullish* analysts to downgrade forecasts.

But Mr John Campbell, analyst at Pru-Bache, argued that the closure cost, which he estimated at £15m, would be absorbed in the regular *restructuring bill. "Unilever* has allowed an average of £50m to £60m for restructuring over the last five years." He also said that for the short term, buying would be in Amsterdam and New York of Unilever *NV stock.* Unilever closed 2 easier at 532p while NV gained ground.

Wellcome recovered 13 to 459p after some sharp falls in the last few days, while Beecham put on 7 to 579p amid reports that top management was meeting in the US.

Britannic Assurance leapt 18 to 408p in front of today's results which County NatWest expects will show profits of £13.25m against last time's £10.85m.

Taylor Woodrow's elevation to the ranks of the FT-SE 100 index was said by dealers to have been behind the strong rise in the shares which raced up 15 to 633p, albeit in rather thin trading of 1m. Rugby continued to reflect the excellent figures released on Monday, and gained 8 more to 183p. Stanley Miller, due to announce figures next week, jumped 12 more to 245p.

Clothing retailer Burton Group climbed 4 to 212p after half-yearly earnings rose 7 per cent to £117.5m. Mr David Robinson, analyst at Nikko Securities, said the long-term outlook on fundamental grounds was positive for Burton because its "ability to adapt to changing demographic demand is underpinned by the ability to shift space from one format to another in the hunt for maximum returns." He now rates the stock a long-term buy.

BICC's entry into the FT-SE 100 index, and consequent buying by index-tracking funds boosted the stock 4 to 462p. Amstrad, dropped from the FT-SE, moved up 4 to 149p.

Business was brisk in British Aerospace where 5.8m shares changed hands. The price lifted 14 to 566p helped by a press report of management changes at Airbus Industrie, where BAe has a 20 per cent stake. Suggestions that the Government was about to raise 15 per cent limits on foreign ownership of both BAe and Rolls Royce underpinned the price of both stocks. Rolls added 4 to 171p.

Kalon turned around a £1.4m loss into a full year profit of £3.7m. Much of the improvement had been discounted in gains during the last fortnight and the shares closed 1¼ better at 40p, after 41p. GR Holdings sprang ahead on news of a six-fold increase in interim profits to £6.5m on a halved turnover. "It's because of a £5.6m gain on a property sale," explained a marketmaker. They closed 22 better at 180p, below the best, in a thin market.

Chrysalis shot ahead again, closing a further 16 higher at 186p with dealers reporting persistent hints of a a bid for the group.

The effects of bumper full-year profits from Western Motor were more than negated by the call for cash, via a £12.5m rights issue, to finance acquisitions. The shares dropped 40 to 625p. Kwik-Fit's annual figures – influenced by a mild winter – disappointed, bringing a close of 7 down at 101p.

Estate agency group Hambro Countrywide slipped 4 to 52p after announcing a fall in full-year profits to £21.2m. "Given the current state of the domestic housing market the upside in the stock is virtually non-existent and the downside considerable," said one dealer as several broking houses switched their recommendations from "hold" to "sell."

Press suggestions that a predator may be lurking for Hugh Mackay, the carpet manufacturer, put the shares 13 higher to 235p. Allied Textile holds a 29 per cent stake in Mackay but last November withdrew an agreed bid for the company

Good demand erupted for Harrisons & Crosfield following the stock's inclusion next month in the FT-SE index. Other factors promoting interest, said a marketmaker as the shares rose 15 to 733p, were the proposed share split and the recent sale of its stake in Harrisons Malaysian Plantations.

■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 30

FINANCIAL TIMES STOCK INDICES

	Mar 21	Mar 20	Mar 17	Mar 16	Mar 15	Year Ago	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	88.10	87.98	88.29	88.61	88.78	90.28	89.29 (8/2)	86.65 (5/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	98.83	99.20	99.23	99.44	99.59	97.52	99.59 (15/3)	95.93 (4/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary	1709.8	1690.9	1705.5	1740.1	1754.3	1483.2	1761.1 (14/3)	1447.8 (3/1)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	194.7	164.8	193.0	194.2	194.6	249.0	194.8 (20/3)	154.7 (17/2)	734.7 (15/2/83)	43.5 (26/10/71)

	Mar 21	Mar 20	Mar 17	Mar 16	Mar 15	Year Ago
Ord. Dl. Yield	4.51	4.53	4.48	4.39	4.36	4.44
Earning Yld %(full)	10.91	11.00	10.89	10.66	10.59	11.29
P/E Ratio(Net)(±)	11.04	10.97	11.09	11.31	11.40	10.80
SEAQ Bargains(5pm)	29,893	23,118	29,913	30,634	31,356	31,413
Equity Turnover(£m)†	-	1053.38	1358.92	1456.59	1251.02	958.05
Equity Bargains†	-	33,759	33,128	35,484	35,939	37,905
Shares Traded (mi)†	-	409.7	499.7	544.0	511.2	420.1

Ordinary Share Index, Hourly changes

● Opening	● 10 a.m.	● 11 a.m.	● 12 p.m.	● 1 p.m.	● 2 p.m.	● 3 p.m.	● 4 p.m.
1696.4	1698.4	1701.5	1699.9	1699.6	1704.6	1708.8	1708.7

DAY'S HIGH 1711.8 DAY'S LOW 1690.4

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974, ±Nil 10.98 †Excluding intra-market business.

● S.E. ACTIVITY

Indices	Mar 20	Mar 17
Gilt Edged Bargains	100.6	109.2
Equity Bargains	218.7	214.8
Equity Value	2129.2	2746.7
5 – Day average		
Gilt Edged Bargains	104.1	102.8
Equity Bargains	231.8	235.9
Equity Value	2040.7	2579.4

● London Report and latest Share Index: Tel. 0898 123001

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
ASDA Group	2,700	146	+3	Commercial Union	756	377	-6	Ladbroke	780	541	+5	Rolls Royce	3,900	171½	+4
Allied-Lyons	11,000	458	-14	Cons. Gold Fields	388	1430	-8	Land Securities	956	580	+8	Rothmans	190	498	+1
Amstrad	1,700	149	+4	Courtaulds	790	311	-4	Laporte	367	425	+2	Royal Bk. of Scotland	220	194	
Argyll Group	1,200	171½	+2½	[illegible]	500	299	+3	Legal & General	1,700	348	+3	Royal Insurance	1,300	427	+7
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
British Airways	975	196		[illegible]	620	222	+3	Pilkington	1,250	256½	+3½	Tate & Lyle	199	266	+5
Brit. Aerospace	1,300	566	+14	GKN	1,226	371	+10	Plessey	1,400	255	+1	Tesco	994	193	+2
Brit. & Comm.	1,700	211	-5	Guinness	1,600	429	+12	Polly Peck Intl.	462	322	+3	Thorn EMI	563	712	+11
British Gas	9,900	180½	+1	Harrisons 'A'	190	799	+11	Prudential	17,000	188	+11	Trafalgar House	1,900	379	+7
British Land	1,000	368	+8	Hanson	3,400	185	+1½	Racal	4,000	375	+5	Trusthouse Forte	1,800	297	+2
BP	6,100	290	+1	Harrisons & Cros.	92	733	+15	Rank Org.	206	953	+4	Ultramar	360	309	+3
British Steel	11,000	83½	+1	Hawker Siddeley	844	671	+5	RMC	1,100	639	+9	Unilever	820	532	-2
British Telecom	1,600	275	+4	ICI	2,300	281	+3	RHM	359	306	+6	United Biscuits	1,700	317	
Burmah Oil	647	563	-2	IMI	705	230	+6	Reckitt & Colman	344	1067	+2	Utd. Newspapers	287	494	+8
Burton	2,600	212	+4	Inc. Cape	2,350	1174	+17	Redland	461	536	+7	Wellcome	799	459	+13
Cable & Wireless	2,800	462	+11	Inchcape	304	257½	-½	Reed International	1,000	410	+1	Whitbread 'A'	5,000	344	-2
Cadbury Schweppes	3,500	345	+9	Jaguar	367	315	+3	Ruston 'B'	582	568	+8	Williams Hldgs.	654	291	+2
Coats Viyella	1,900	159	+1	Kingfisher	226	268	-1	RTZ	1,500	536	+8	Wimpey	8,900	308	+8

NEW HIGHS AND LOWS FOR 1988/89

NEW HIGHS (114). BRITISH FUNDS (1) AMERICANS (2) [illegible] ... Abbeycrest, Barratt (Henry), Barry Wehmiller, Beaverco, Cape Inds., Cosalt, GR Hldgs., Handley-Walker, Hay (Norman), Johnson Cleaners, Jourdan (T.), Laidlaw Thompson, McLeod Russel, Macfarlane, Pentland, Ropner A, Serco Grp., Smallbone, Triefus, Oy Wartsila, Wyndham Grp., INSURANCE (3) Bradstock Grp., Britannic, Prudential, LEISURE (3) Chrysalis, Kunick, NEWSPAPERS (2) Gardner (D.C.), Quarto Grp., Trinity Int., PAPERS (4) Bemrose, Dudley Jenkins, Pathfinders, Shandwick, PROPERTY (7) SHIPPING (2) Southampton I.O.W. Steam, Norex, SOUTH [illegible] ... (2) Hambros, Morgan Grenfell, BREWERS (1) Scott. & New., BUILDINGS (1) Bellwinch, ELECTRICALS (5) Audio Fidelity, Black & Decker, NEC, Systems Rlbty, TDK, FOODS (1) Ashley Grp., INDUSTRIALS (5) Hewitt (J.), Mayne Nickless, Noble & Lund, Select Appointments, Walker Greenbank, INSURANCE (1) PWS Hldgs., MOTORS (1) Kwik-Fit Hldgs., PAPERS (1) Saatchi & Saatchi, PROPERTY (2) de Morgan, Hanover Druce, TRUSTS (1) Tyndall Hldgs., OILS (1) Petrofina, OVERSEAS TRADERS (1) First Pacific, MINES (4) DRX, Metana Minerals, Monarch Res., Mount Burgess.

APPOINTMENTS

Rolls-Royce finance director

■ Mr P.F. Macfarlane has been elected to the board of ROLLS-ROYCE, and will be finance director from April 1 when he succeeds Mr J.A. Rigg who retires on March 31. Mr Macfarlane is director of corporate development, and previous Rolls-Royce posts include director of industrial and marine, and treasurer.

■ Mr R.H. Tookey has been appointed chairman of KILLICK MARTIN & CO from May 1 in succession to Mr D.W. Gravell who is retiring.

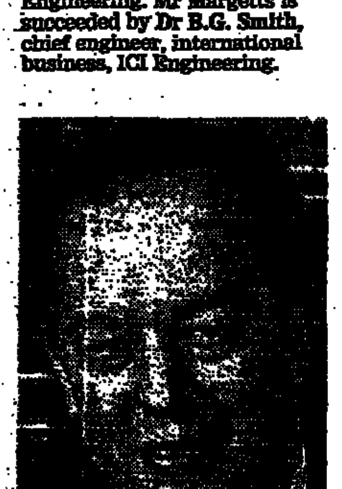
■ Mr Lyman J. Baldwin, formerly senior vice president of Hartford Fire Insurance Co and subsidiary companies, has been appointed to the board of R.K. CARVILL (INTERNATIONAL HOLDINGS), reinsurance brokers, from April 1.

■ Mr Colin Hutchins has been appointed finance director at MERLIN INTERNATIONAL PROPERTIES.

■ Mr Christopher C. Micklethwaite and Mr Nicholas R. Worthington have joined the board of ATKINS HOLDINGS.

■ Mr John Thorpe has been appointed group managing director of MICROGEN HOLDINGS from March 30. He was managing director of the security print division of De La Rue.

■ Mr M.E. Brogden, previously general manager-personnel, ICI, has been appointed a group director of ICI CHEMICALS & POLYMERS. He is succeeded by Mr R.J. Margetts, director of ICI Engineering. Mr Margetts is succeeded by Dr B.G. Smith, chief engineer, international business, ICI Engineering.



Mr Ian Cockburn *(above)* has been appointed senior investment director in the property division of the CARROLL GROUP. He was property investment manager of ESN (Electricity Supply Nominees).

■ Mr Michael Sharp has been appointed to the board of THE RUGBY GROUP as executive director responsible for planning and development. He was group financial controller.

■ Mr Maurice Hinde has been appointed managing director of ALAN BUTCHER ASSOCIATES, Salisbury, which supplies specialist mouldings to the construction industry. He was chairman of the Westbrick Plastics Group, part of the Beazer Group.

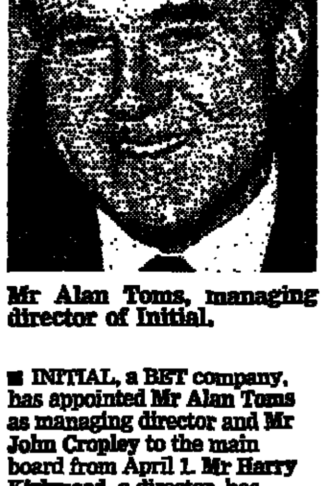
■ ALPHA METALS (UK) has appointed Mr David Crimp as general manager.

■ Mr Richard Birley has been appointed non-executive chairman of TLS RANGE, a vehicle hire company in the north west.

■ Mr F. Michael Everard has been appointed chairman, and Mr William D. Everard becomes managing director of F.T. EVERARD & SONS.

■ From April 1 J. HENRY SCHRODER WAGG & CO has appointed Mr J.C. Aston, Mr R.J. Broadbent, Mr J.R. Burnham, Mr C.J. Jobson, Mr N.A. Pantling, Mr J.W. Pearson, Miss G.R. Scheck and Mr P. Tarantelli as directors; and Mr D.A. Arch, Miss L.M. Cribb, Mr T.J. Howe, Mr S.H. Kosciuszko, Mr C.G. Lawrie, Mr P.P. Mullins, Miss A.J. Shipman, and Mr S.M. Wigg as assistant directors.

Managing director of Initial



Mr Alan Toms, managing director of Initial.

■ INITIAL, a BET company, has appointed Mr Alan Toms as managing director and Mr John Cropley to the main board from April 1. Mr Harry Kirkwood, a director, has retired. Mr Toms was deputy managing director, and is executive deputy chairman of Initial UK. He takes over from Mr Brian Thompson, who remains chairman of Initial and is a director of BET. Mr Cropley is chairman of Initial UK's sales and marketing division.

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AUTHORISED UNIT TRUSTS

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Abbey Unit Tst Mngrs (1200)H						
80 Holdenhurst Rd, Bournemouth 0345 717373						
High Income						
American Income	6	47.10	47.10xd	50.38	+0.15	5.44
Gilts & Fixed Int	6	112.30	112.30xd	119.20	+0.10	8.39
High Inc Equity	6	129.90	133.00	141.40	-0.1	4.49
Worldwide Bond	6	185.70	185.70xd	196.80	-1.10	4.93
Capital Growth						
American Growth	6	158.00	159.90	170.00	-1.9	1.70
Asian Pacific	6	84.84	84.84	90.74	+0.28	0.95
Assets & Earnings	6	157.60	161.60	171.90	-0.1	2.17
Capital Reserve Acc	0	83.96	83.96	83.97	+0.15	4.76
Comdty & Energy	6	97.32	97.32xd	104.10	-1.00	0.00
1992 Enterprise	6	54.27	55.31	58.83	-0.23	3.06
European Capital	6	77.03	77.03	82.39	-0.47	0.91
General	6	171.10	171.10	183.00	-0.20	2.44
Japan	6	101.80	103.50	110.10	+0.10	0.00
Mastertrust	6	79.37	79.37	84.89	-0.34	1.90
UK Growth Acc	6	197.60	205.60	218.70	-3.80	1.28
UK Growth Dist	6	132.60	137.90	146.70	-2.60	1.92
US Emerging Cos	6	45.97	47.63	50.67	-1.08	0.00
Income & Growth	6	285.40	285.40	305.30	....	3.36
Ethical	6	48.13	49.26	52.40	-0.10	2.39
Abtrust Management Ltd (1000)H						
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580						
American	5¼	42.45	42.45	45.31	-0.55	1.71
Australian	5¼	22.45	22.45	23.97	-0.07	1.16
European	5¼	53.45	53.45	57.06	-0.30	0.00
Extra Income	5	42.11	42.11xd	44.70	-0.22	4.46
Fund Inv Tst	5	117.8	117.8	125.7	-0.20	1.99
Do Accum	5	179.5	179.5	191.6	-0.30	1.99
Gilt & Fixed Int	5¼	21.88	21.88xd	23.36	-0.02	10.09
Global Income	5¼	38.80	38.80	41.42	-0.27	4.41
Income & Growth	5¼	71.77	71.77	76.62	-0.05	3.72
Japan	5¼	173.5	173.5	185.2	+0.20	0.01
Nth Amer Inc (z)	5	26.52	26.52	28.15	-0.32	4.42
Special Situations	5¼	71.05	71.05	75.84	-0.09	0.90
UK Growth	5	36.20	36.20	38.42	-0.25	2.56
World Gwth	5	45.33	45.33	48.12	-0.31	0.47
Formerly Sentinel Funds Management Ltd						
American Majors	5¼	59.79	59.79	63.83	-0.59	3.20
Amer Tech & Gen	5¼	102.7	102.7	109.6	-0.80	0.00
European Growth	5¼	36.96	36.96	39.46	-0.27	0.00
European Income	5¼	53.32	53.32	56.92	-0.17	1.43
European Spec Sits	5¼	21.33	21.33	22.77	-0.16	0.00
Exempt	1	795.2	795.2	829.9	-4.90	3.47
F East Emerg Econ	5¼	37.06	37.06	39.69	-0.02	0.00
Intl Growth	5¼	45.99	45.99	49.10	-0.19	0.00
Intl Income	5¼	58.66	58.66	62.61	-1.06	5.10
Jap Tech & Gen	5¼	137.6	137.6	146.9	.....	0.00
Pacific	5¼	308.2	308.2	330.1	.....	1.16
Secure Income	5	197.6	197.6	211.0	-0.60	5.31
Small Co's	5¼	60.76	60.76xd	64.86	-0.25	3.24
Special Sits	5	267.5	267.5	285.5	-0.50	2.91
UK General	5¼	39.13	39.13	41.77	+0.06	2.98
UK Top 100 Mgd	5¼	25.03	25.03	26.72	-0.03	4.14
Acorn Unit Trust Managers Ltd (1100)						
1 White Hart Yd, London Bridge SE1 1NX 01-407 5966						
Ethical Tst	5	96.41	96.41	102.0	-0.11	3.00
Aegis Unit Tst Mngmt Ltd (1400)F						
94 Whiteladies Rd, Bristol, BS8 1QX 0272 237593						
CAMco Intl Recovery	5	48.60	49.92	52.55	-0.35	1.50
Clifton Prem Perf	6	48.12	48.77	51.89	-0.21	1.50
Global Sector P'folio ♦	6	49.17	50.15	53.33	+0.07	4.00
NPS Income & Gwth ♦	6	49.08	49.67	52.85	-0.31	7.00
St Nicholas St Gth Inc	5	46.14	46.71	49.96	+0.18	4.58
St Nicholas St Gth Acc	5	47.31	47.90	51.23	-0.19	4.58
Blackstone Frads UK	5	46.56	47.53	50.57	+0.33	2.50
Blackstone Frads Int	5	49.22	49.90	53.09	-0.12	2.50
AEtna Unit Trusts Ltd (1600)F						
AEtna House, 2-12 Pentonville Road, London, N1 9XG						
Broker Dlng 0800 010 969 Public Dlng 0800 181766						
European Growth	5	116.8	116.8	125.5	-0.5	0.96
Exempt	2	452.4	452.4xd	475.2	+1.9	4.05
(Accum Units)	2	1142	1142	1200	+5.0	4.05
Far Eastern	5	241.0	241.0xd	258.5	-0.7	0.00
(Accum Units)	5	260.5	260.5	279.4	-0.8	0.00

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Buckmaster Mangmt Co Ltd—Contd.						
General Inc	5	300.40	300.40	317.3	+0.7	2.34
(Accum Units)	5	499.70	499.70	528.4	+1.1	2.34
Income	5	155.80	161.0	170.80	-0.2	3.84
(Accum Units)	5	297.70	307.60	326.4	-0.4	3.84
International	5	113.7	113.7	120.2	-0.4	2.51
(Accum Units)	5	155.1	155.1	164.0	-0.5	2.51
Smaller Co's	5	112.1	114.9	121.9	....	1.06
(Accum Units)	5	122.6	125.7	133.4	+0.1	1.06
Inv Portfolio	2½	53.09	54.92	56.62	+0.02	3.64
(Accum Units)	2½	54.05	55.92	57.65	+0.03	3.64
High Income Port	3	48.35	48.35	50.31	+0.01	6.50
Burrage Unit Tst Mangmt Ltd (0905)F						
117 Fenchurch St, London EC3M 5AL 01-480 7216						
Sht Dtd Gilt & FI	1¼	52.27	52.27xd	53.02	+0.02	11.37
CCL Unit Trusts Ltd (1400)F						
74 Shepherds Bush Green, W12 8SD 01-740 7070						
UK General Tst	5½	53.13	54.04	57.80	-0.06	2.70
Global Tst	5½	39.67	39.84	42.61	-0.12	2.30
Recovery Tst	5½	54.92	57.28xd	60.94	-0.35	2.61
CIBC Unit Tst Managers plc (1200)H						
Cottons Ctr, Cottons Lane, Ldn. SE1 2QL 01 234 6000						
Growth Fd Acc	5	104.9	106.3	112.1	+0.2	3.52
CS Fund Managers Limited (1000)F						
125 High Holborn, London WC1V 6PY 01-242 1148						
CS America	5	52.21	52.21xd	55.54	-0.38	0.45
CS International	5	53.30	53.30	56.70	-0.23	1.79
CS Japan	5	118.6	118.6	126.1	+0.1	0.39
CS Portfolio Inv & H	5	69.72	69.72xd	74.17	+0.26	1.94
Canada Life Unit Tst Mgrs Ltd (1200)F						
2-6 High St, Potters Bar, Herts 0707 51122						
Can Gen Dist	5	135.2	140.5	147.9	(z)	3.13
Do Gen Accum	5	225.4	234.3	246.7	(z)	3.13
Do Income Dist	5	94.78	98.54	103.7	(z)	5.43
Do Inc Accum	5	212.9	221.5	233.1	(z)	5.43
Gilt & Fxd Int	5	36.68	36.82xd	38.76	(z)	8.28
Cannon Fund Managers Ltd (0700)H						
1 Olympic Way, Wembley, HA9 0NB 01-902 8876. Dealing: 0800 282621						
Growth	5½	36.72	37.07	39.65	-0.31	2.58
Income	5½	46.60	47.21	50.49	-0.39	4.12
Far East ♦	5½	33.78	34.41	36.61	+0.01	0.17
North American ♦	5½	29.03	29.03	31.38	-0.54	0.66
Global ♦	5½	47.49	48.38xd	51.47	+0.14	0.67
European	5½	45.83	46.56xd	49.53	+0.08	1.08
Japan ♦	5½	95.56	97.30	103.5	-0.20	0.01
Intl Currency Bd	5½	43.29	43.29	45.92	-0.01	6.00
Strategic Opps	5½	55.05	56.63	60.57	-0.24	1.24
Capability Trust Mngrs Ltd (1200)F						
Admin, 5 Rayleigh Road, Hutton, Brentwood, Essex. Enquiries 0277 227300 Dealing 0277 261010						
American & Gen	5	64.20	64.20	68.30	-0.63	2.23
(Accum Units)	5	66.37	66.37	70.61	-0.65	2.23
European Inc	5	47.57	47.94	51.00	+0.14	0.71
(Accum Units)	5	48.17	48.54	51.64	+0.13	0.71
Far East & Gen	5	60.38	60.38	64.23	-0.13	0.00
(Accum Units)	5	60.38	60.38	64.23	-0.13	0.00
Glenfriars	5	246.3	252.7xd	268.8	+0.2	1.19
(Accum Units)	5	256.8	263.4xd	280.2	+0.2	1.19
Growth	5	250.8	250.8xd	266.8	-0.8	2.17
(Accum Units)	5	384.8	384.8xd	409.4	-1.1	2.17
High Yield	5	310.4	312.1	332.0	+0.8	3.78
(Accum Units)	5	346.0	347.9	370.1	+1.0	3.78
Master Portfolio	1½	7436	7440	7710	-26	2.59
(Accum Units)	1½	7829	7827	8111	-27	2.59
Special Sits	5	63.04	63.04	67.06	-0.24	2.27
(Accum Units)	5	66.29	66.29	70.52	-0.25	2.27
Trustee	5	184.4	184.4xd	196.2	-0.3	3.65
(Accum Units)	5	311.7	311.7xd	331.6	-0.5	3.65
James Capel Unit Tst Mngt Ltd (1535)F						
P.O. Box 552, 7 Devonshire Sq, London EC2M 4HU 01-626 0566 Dealing: 01-929 6363						
American Index	5¼	108.6	110.0xd	116.4	-1	1.72
Capital	5¼	451.1	455.1	485.6	+1.9	2.79
European Sp Sits	5¼	56.23	56.33	60.11	-0.25	2.31
Far East Sp Sits	5¼	56.71	56.86	60.68	-0.1	1.21
Gold & General	5¼	61.26	61.66	65.80	-0.76	1.77
Income	5¼	389.2	392.3	418.6	+2.3	4.95
Intl Spec Sits	5¼	53.75	54.06	57.69	-0.27	2.53
Nth American	5¼	256.9	258.3	275.6	-2.9	2.07
European Index	5¼	93.62	94.60	100.1	--	1.00
Japan Index	5¼	89.90	90.74	96.02	+0.12	--
Capital House Unit Tst Mgrs (0905)H						

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INSURANCES

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Pioneer Mutual Insurance Co Ltd
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655

	Bid Price	Offer Price	+ or −	Yield Gross
Managed Fund	297.1	312.8	—	—
Max Pens Inc & Cap Fds	391.1	411.7	—	—
Money Fund	117.7	123.9	—	—
Pens Mngd Fd (Init)	103.4	108.9	—	—
Pens Mngd Fd (Acc)	123.5	130.0	—	—
Pens FT30 Fd (Init)	147.5	155.3	—	—
Pens FT30 Fd (Acc)	176.2	185.5	—	—
Pens O'seas MgFd(Init)	73.4	77.3	—	—
Pens O'seas MgFd(Acc)	87.7	92.4	—	—
Pens Fxd Int Fd (Init)	105.3	110.9	—	—
Pens Fxd Int Fd (Acc)	125.7	132.4	—	—
Pens Deposit Fd (Init)	103.7	109.2	—	—
Pens Deposit Fd (Acc)	123.9	130.5	—	—

Premium Life Assurance Co Ltd
37-39, Perrymount Road, Haywards Heath 0444 458721

	Bid Price	Offer Price	+ or −	Yield Gross
American	109.0	115.0	—	—
Building Soc. Fd.	168.0	177.0	—	—
Balanced	274	289.0	+1.0	—
Deposit	168.0	177.0	—	—
European	151.0	159.00	—	—
GT Managed	172.0	182.0	−1.0	—
Gartmore Mngd	110.0	116.0	—	—
German	104.0	110.0	+1.0	—
Gilt	177.0	187.0	+1.0	—
Global	48.0	51.0	—	—
High Inc.	116.0	123.0	—	—
International Equity	179.0	189.0	+1.0	—
Japan	230.0	243.0	+1.0	—
Managed	62.0	66.0	—	—
Property	276.0	291.0	—	—
R. W. Imperial Gold	131.0	138.0	—	—
UK Equity	373.0	393.0	+2.0	—
Pension Funds				
American	136.0	144.0	—	—
Building Soc. Fd.	166.0	175.0	—	—
Balanced	214.0	226.0	—	—
Deposit	159.0	168.0	—	—
European	154.0	163.0	—	—
German	96.0	102.0	—	—
Gilt	149.0	157.0	—	—
International Equity	134.0	142.0	—	—
Japan	136.0	144.0	—	—
Managed	64.0	68.0	—	—
Property	213.0	225.0	—	—
UK Equity	334.0	352.0	—	—

Prolific Life & Pensions Ltd
Stramongate, Kendall, Cumbria LA9 4BE 0539 33733

Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	+ or −	Yield Gross
Balanced Grth Mngd	563.9	594.3	(z)	—
Adventurous Mngd	116.3	123.8	(z)	—
Secure Mngd	106.1	111.9	(z)	—
Cash Fd	228.9	241.3	(z)	—
Property Fund	280.9	298.9	(z)	—

Prudential Holborn Pensions Ltd
30 Old Burlington St, London W1X 1LB 01-439 3134

	Bid Price	Offer Price	+ or −	Yield Gross
Managed	534.7	562.9	+0.6	—
Equity	778.7	819.7	+1.5	—
Global Equity	213.9	225.2	−0.2	—
Fixed Interest	400.1	421.2	+0.3	—
Property	378.0	397.9	+0.4	—
Cash	152.1	160.2	+0.1	—
Index Linked Gilt	195.8	206.2	+0.3	—
Guaranteed	12.18		—	—
International Money	195.1	205.4	−0.2	—
North American	38.5	42.6	−0.0	—
Japanese	129.6	136.5	+0.1	—
European	79.8	84.0	−0.1	—
Special Situations	114.2	120.3	+0.5	—
Communications	94.6	99.6	+0.4	—
Smaller Companies	107.9	113.6	−0.2	—
International Small Cos	115.4	121.5	−0.2	—

Prudential Pensions Limited
Holborn Bars, London EC1N 2NH 01-405 9222

	Bid Price	Offer Price	+ or −	Yield Gross
Discretionary Mar 16	£149.60	154.80	—	—
Equity Mar 16	£166.36	172.32	—	—
International Mar 16	£23.55	24.30	—	—
Intl Bond Mar 16	£11.08	11.29	—	—
Fixed Int Mar 16	£71.79	72.75	—	—
Index Linked Mar 16	£60.82	61.99	—	—
Property Mar 16	£104.26	110.56	—	—
Cash Mar 16	£20.2733	20.2733	—	—
Pru-Linked Retirement Plan				
Managed Mar 15	372.3	387.9	—	—
Cash Mar 15	190.8	198.8	—	—
Prudential Pensions Investment Account				
Pens Mngd Mar 21	149.3	157.2	−0.3	—
Pens UK Eq Mar 21	288.6	303.8	−0.9	—
Pens Intl Mar 21	169.6	178.6	+0.7	—
Pens Fixed Mar 21	164.7	173.4	−0.8	—
Pens Index Lk Mar 21	154.1	162.3	−0.5	—
Pens Cash Mar 21	124.6	131.2	—	—

Regency Life Assurance Co Ltd
Regency Hse, Lanark Sq, London E14 9XS 01-538 8800

	Bid Price	Offer Price	+ or −	Yield Gross
Aggressive Ptflio Fd	114.4	120.4	−0.8	—
Balanced Ptflio Fd	301.9	317.7	−2.2	—
Cautious Ptflio Fd	119.9	126.2	−0.3	—
Elite Fund	104.6	110.0	−0.2	—
European Fund	75.0	78.9	−0.1	—
Far East Fund	103.7	109.1	−0.2	—
Fixed Interest Fund	241.8	254.5	—	—
International Fund	239.6	252.2	−0.8	—
Money Fund	173.6	182.7	—	—
N. American Fd	102.9	108.3	−1.2	—
Property Fund	412.0	433.6	+0.6	—
UK Equity Fd.	371.4	390.9	−4.3	—

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd

Standard Life Assurance Company

Sun Alliance Insurance Group

Sun Life of Canada (UK) Ltd

Sun Life Unit Assurance Ltd

Swiss Life Pensions Ltd

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Tunbridge Wells Equitable

UK Life Assurance Co Ltd

Wesleyan & General Assurance Soc

Windsor Life Assur Co Ltd

Zurich Life Assurance Co Ltd

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

BERMUDA AUTHORISED

GUERNSEY (**)

JERSEY (**)

FT UNIT TRUST INFORMATION SERVICE

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
99⅞	99⅛	Treas 9½pc Cny 1989	99⅞	.....	9.53	11.71
99	97½	Treas 3pc 1989	99	+⅛	3.04	10.91
99½	99⅛	Treas 10½pc 1989	99½	+⅛	10.55	12.45
99⅛	98⅞	Exch 10pc 1989	99¼	+⅛	10.09	12.39
99¾	99⅛	Exch 11pc 1989	99¼xd	.....	11.08	12.40
97⅛	95¼	Treas 5pc 1986-89	97⅛xd	.....	5.15	10.34
99½	99⅛	Exch 10¼pcCv '89	99⅛	.....	10.31	11.07
101⅞	100⅞	Treas 13pc 1990‡‡	100⅞	+⅛	12.89	11.83
99⅞	99	Exch 11pc 1990‡‡	99⅛	+⅛	11.08	11.84
101⅛	100¾	Exch. 12½pc 1990	100⅞	+⅛	12.43	11.88
93⅛	91⅞	Treas. 3pc 1990	93⅛	.....	3.23	9.70
96⅞	95¼	Treas 8¼pc 1987-90‡‡	96¼	.....	8.57	11.53
98⅞	96⅛	Treas. 8pc Cv 1990 ‡‡	97⅞	+⅛	8.19	9.90
98⅞	97⅞	Treas. 10pcCv 1990	97⅞xd	+⅛	12.23	11.58
90	87⅞	Exch 2½pc 1990	89⅞	.....	2.79	9.26
101⅞	100¼	Treas 11¼pc 1991	100½	+⅛	11.68	11.38
91¾	89¾	Funding 5¾pc '87-91‡‡	91¾xd	.....	6.28	10.49
88½	86⅛	Treas. 3pc 1991	87⅞	.....	3.41	9.38
100⅛	98	Treas 10pc Cv '91 ‡‡	98⅞	+⅛	10.12	10.60
101⅛	99⅛	Exch. 11pc 1991	99¾xd	+⅛	11.02	11.09
94⅛	92⅛	Treas 8pc 1991	92⅞	+⅛	8.60	11.04
106⅛	104⅞	Treas 12¾pc 1992‡‡	104⅞	+⅛	12.17	10.75
99½	97¾	Treas 10pc 1992	98	+⅛	10.19	10.77
94⅛	91⅞	Treas. 8pc 1992 ‡‡	92⅞xd	+⅛	8.61	10.78
100¼	98¾	Treas 10½pc Cv 1992‡‡	99¼	+⅛	10.58	10.77
85⅛	82¼	Treas 3pc 1992	83¾	.....	3.57	8.75
105⅞	103¼	Exch. 12¼pc '92	104⅛	+⅛	11.75	10.73
109¼	107¾	Exch 13½pc 1992	107⅞	+⅛	12.49	10.66
94⅛	92	Treas 8¼pc 1993	92⅞	+⅛	8.90	10.55
100⅛	97⅞	Treas 10pc 1993‡‡	98⅞xd	+⅛	10.14	10.41
108¼	106⅛	Treas 12½pc 1993‡‡	106⅞	+⅛	11.69	10.46
87¼	85⅝	Funding 6pc 1993‡‡	86⅛	−⅛	6.90	9.63
113¼	111⅛	Treas 13¾pc 1993‡‡	111⅞	+⅛	12.29	10.46
94½	91⅛	Treas. 8½pc 1994	92¼	+⅛	9.17	10.44
117⅞	114⅞	Treas 14½pc 1994‡‡	115⅞	+⅛	12.51	10.30

Five to Fifteen Years

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
113⅞	110⅞	Exch 13½pc 1994	111⅞xd	+⅛	12.07	10.45
100¼	97¾	Treas. 10pc Ln. 1994‡‡	98⅞	+⅛	10.10	10.25
110¼	107⅛	Exch. 12½pc 1994	108⅞	+⅛	11.53	10.44
96⅞	93⅞	Treas 9pc 1994‡‡	94⅞	+⅛	9.48	10.20
108⅞	105¼	Treas 12pc 1995	106⅞	+⅛	11.24	10.40
79¾	76¼	Exch 3pc Gas 90-95	76¼	−⅛	3.93	7.78
101⅞	98⅞	Exch. 10¼pc 1995	99⅞	+⅛	10.27	10.29
113⅞	110⅛	Treas 12¾pc 1995‡‡	111⅞	+⅛	11.41	10.25
119⅞	115¾	Treas. 14pc '96	117⅛	+⅛	11.93	10.39
97½	93⅞	Treas. 9pc 1992-96‡‡	95⅞	+⅛	9.39	9.82
126⅞	122⅞	Treas 15¼pc 1996‡‡	124½	+⅛	12.34	10.29
117⅛	113½	Exch 13¼pc 1996‡‡	114⅞	+⅛	11.53	10.24
101⅛	97⅞	Conversion 10pc 1996	99⅛	+⅛	10.08	10.11
118½	114½	Treas 13¼pc 1997‡‡	115⅞	+⅛	11.42	10.21

[illegible]

Over Fifteen Years

[illegible]

BRITISH FUNDS—Contd

Undated

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
45⅛	43⅞	Consols 4pc	44⅛	.....	8.94	-
40⅛	38⅞	War Loan 3½pc‡‡	39⅞	.....	8.80	-
70⅞	60⅛	Conv 3½pc '61 Aft.	68½xd	.....	5.11	-
41⅛	31⅞	Treas. 3pc '66 Aft.	38xd	.....	7.89	-
30⅛	27⅛	Consols 2½pc	29⅛xd	.....	8.58	-
29½	27¼	Treas. 2½pc	28¼xd	.....	8.85	-

Index-Linked

1989 High	Low	Stock (b)	Price £	+ or −	(1)	(2)
127¼	124	Treas 2pc IL '90(84.6)	127¼	+⅛	-	2.72
106½	103⅞	Do 2pc '92(77.8)	106⅛xd	+⅛	2.53	3.25
99⅞	94⅞	Do 2 '94(102.9)	98⅞	+⅛	2.85	3.32
145	139½	Do. 2pc '96(67.9)	144⅛xd	+⅛	3.07	3.41
124⅞	118⅛	Do 2½pc '01(78.3)	124½	+⅛	3.28	3.49
122⅞	115⅝	Do. 2½pc '03(78.8)	122⅛	+⅛	3.32	3.50
125⅞	117⅞	Do. 2pc '06(69.5)	125⅛	+⅛	3.35	3.51
117⅛	110¼	Do 2½pc '09(78.8)	117⅛	+⅛	3.36	3.51
123⅛	114⅞	Do. 2½pc '11(74.6)	122⅛	+⅛	3.36	3.50
102⅛	95¼	Do 2½pc '13(89.2)	102⅛	+⅛	3.34	3.48
110⅞	101¼	Do 2½pc '16(81.6)	110⅛	+⅛	3.32	3.45
108⅛	100¾	Do 2½pc '20(83.0)	108⅛xd	+⅛	3.28	3.40
91⅛	84⅞	Do. 2½pc '24‡‡(97.7)	91⅛	+⅛	3.26	3.36

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for June 1988:106.6 and for January 1989:111.0

INT. BANK AND O'SEAS

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
108⅞	103⅞	African Dv Bk 11¼Ln 2010	106⅛	+⅛	10.47	10.38
104⅞	99⅞	Asian Dev Bk 10¼pcLn2009	102⅞	+⅛	10.05	9.95
130⅞	124⅞	Australia 13½pc 2010	127¼xd	+⅛	10.63	10.33
113⅞	108½	Do. 11½pcLn2015	110¼	+⅛	10.32	10.24
108⅞	103⅞	Euro Inv Bk 11pc Ln 2002	105⅞	+⅛	10.38	10.17
104⅞	99⅞	Do. 10¼pc2004	101⅞	+⅛	10.19	10.14
118⅞	113⅞	Int-Am Dev Bk 12½pc 2003	115⅞	+⅛	10.78	10.30
99⅝	95¼	Do. 9¼pcLn 2015	96⅞	+⅛	10.07	10.09
97½	94¾	Mlysia 10¾pcLn 2009	97½xd	..	11.05	11.03
120	118	Nat Westm Sum 15½pc 2008	118	..	13.98	11.80

CORPORATION LOANS

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
102	100	Birmingham 13½pc 1989	100½	..	13.43	11.20
111½	102½	Do 11½pc 2012	110½	..	10.41	10.33
91	87¼	GLC 6¾pc 1990-92	89½xd	...	7.54	10.85
124½	114½	Leeds 13½pc 2006	124½xd	..	10.84	13.45

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COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

1989 High	Low	Stock	Price	+ or −	Div Gross	C'vr	Y'ld Gr's
30¾	26¼	Abbott Laboratories	30¼xd	+¼	$1.20	-	2.3
537p	361p	♦Allegheny & W 1c	467p	-36	30c	-	3.8
15¼	12½	Amax $1	13½	-⅛	40c	-	1.7
11⅝	976p	Amdahl 5c	976xd	-16	h10c	-	0.6
31⅞	25½	Amer Cyanamid $5	29¼	-⅛	$1.20	-	2.4
18¼	14⅝	Amer Express 60c	17⅝xd	-⅛	84c	-	2.8
10⅞	854p	Amer. Medical Int. $1	10¼	-⅛	72c	-	4.2
19	15¼	American T & T $1	18⅜	+⅛	$1.20	-	3.7
30⅜	26⅞	Ameritech $1	29⅞xd	...	h$2.92	-	5.7
12¼	9⅝	BankAmerica $1⅝	12¾	+⅛	60c	-	2.7
23⅞	19¼	Bankers N Y $1	23½	-⅛	$2.08	-	5.2
44	38½	Bell Atlantic $1	43½	-¼	$4.08	-	5.5
24¾	19⅝	BellSouth Corp	23½	-⅛	$2.36	-	5.9
15⅞	12⅝	♦Bethlehem Steel $8	13⅞xd	-⅛	-	-	-
10¼	929p	♦Bio-Rad Labs. A	10¼	...	-	-	-
17	15¼	Bowater Inc	15¼	-⅛	$1.12	-	4.2
11¼	9⅝	Brunswick 75c	10xd	-⅛	44c	-	2.6
31⅞	28¼	CPC Intnl. 25c	29⅞	-⅛	$1.60	-	3.1
19¼	17¾	CSX $1	18¼	-⅛	$1.24	-	4.0
798p	333p	California Engy	535p	...	-	-	-
19¼	17¼	Campbell Soup 15c	18⅛	-⅛	92c	-	3.0
20¾	15⅞	Chase Manhattan $12½	20¼	-⅛	$2.36	-	6.8
19⅝	17	Chem Banking Corpn.	19¼xd	-⅛	$2.72	-	8.3
16¼	14⅛	Chrysler $6¼	14½xd	-⅛	$1.20	-	4.8
16⅜	14⅞	Citicorp $1	16⅛xd	-⅛	$1.48	-	5.3
230p	169p	CityFed Fin Corp	175p	...	4c	-	1.3
27¼	25¼	Colgate-Palmolive $1	27xd	-⅛	s$1.48	-	3.2
21¼	17⅝	Cons Freightways 62½c	17¼	-⅛	98c	-	3.3
11⅞	10¼	Cont'l Bank Corp $4	11¼	-⅛	8c	-	0.4
388p	326p	♦Corporate Data Sc	326p	-10	-	-	-
306p	278p	Cullinet Sftwr 1c	292p	...	-	-	-
22⅞	21⅛	Dana Corp $1	22¾	-⅛	$1.60	-	4.2
10⅞	918p	Data General	918p	-60	-	-	-
32¼	28¼	Dun & Bradstreet $1	28⅛	-⅛	$1.74	-	3.6
34⅞	30½	Eaton Corpn. 50c	33⅛xd	-⅛	h$2.00	-	3.5
10	8¾	Echlin Inc	9½	-⅛	70c	-	4.3
18⅛	16⅜	FPL Group 1c	17¼xd	...	$2.20	-	7.5
32⅛	27⅞	Ford Motor $1	28⅝	-½	$3.00	-	6.1
33⅝	30⅛	GATX 62½c	31⅛	-⅛	$2.00	-	3.7
27¼	24¼	Gen Elect 63c	26⅛xd	-⅛	$1.64	-	3.7
567p	484p	♦General Host Corp $1	503p	-15	23c	-	3.3
20⅞	18¼	Gillette $1	20	-⅛	96c	-	2.8
769p	616p	Gt Am First Svgs Bk $1	671p	-29	60c	-	5.2
17⅞	16⅛	Greyhound $1½	17⅛	-⅛	$1.32	-	4.5
11⅛	847p	♦Hasbro Inc 50c	10¼	+⅛	10c	-	0.9
8¼	6	♦Home Group $1	7¾xd	...	20c	-	1.5
38⅛	32¼	Honeywell $1½	36⅛	-⅛	$2.10	-	3.4
16¾	15¼	Houston Inds ‡	15⅞	...	$2.76	-	10.9
74¼	64	IBM Corpn $1¼	64	-1¼	$4.40	-	4.0
52p	47p	♦Image Storage/R Sys 1c	47p	...	-	-	-
22⅞	18¾	Ingersoll-Rand $2	22¼xd	...	$1.04	-	2.7
29¼	22½	Lockheed Crpn. $1	26¼xd	-⅛	$1.60	-	3.5
18⅛	15⅛	Lone Star Inds $1	17½xd	-⅛	$1.90	-	6.3
20⅛	17½	Louisiana Land 15c	19⅞xd	-⅛	$1.00	-	2.9
14¼	11½	Lowe's 50c	13½	-⅛	48c	-	2.1
20¾	15⅛	Manuf Hanover $1	20	-⅛	$3.28	-	9.6
17⅞	13⅛	Merrill Lynch $1	16⅛	-⅛	$1.00	-	3.6
2253p	1954p	Molex Inc	1964p	-3	3.2c	-	-
22¾	18¼	Morgan (JP) $2½	22¼xd	-⅛	$1.64	-	4.4
41¼	36½	NYNEX $1	40¼	-½	$4.04	-	5.9
20¾	18¼	PHH Corp ‡	19⅝	-⅛	$1.12	-	3.3
235p	220p	♦Pacific Agr ‡	224p	...	-	-	-
20¼	19	Pacificorp $3¼	19⅞	-⅛	$2.64	-	7.7
20¼	16⅜	Pacific Telesis 10c	19⅞	-⅛	$1.76	-	5.2
17¾	15¼	Pall Corp 25c	16¼	-⅛	48c	-	1.7
49¼	39⅛	Pennzoil $3 1/3c	48⅛	-⅛	$3.00	-	3.6
19⅝	17⅛	Premark Intl	19⅛xd	...	60c	-	1.8
32¼	28¾	Quaker Oats $5	29⅛xd	-⅛	$1.20	-	2.4
26⅛	23½	Rep NY Corpn $5	25¾xd	-⅛	$1.20	-	2.7
13¼	11⅞	Rockwell Intl. $1	12¼xd	-⅛	72c	-	3.3
26¼	21⅛	Southwestern Bell $1	25⅞	+⅛	$2.48	-	5.6
22⅛	17⅜	Sun Co. Inc. $1	20⅛	-⅛	$1.80	-	5.2
26¾	22⅞	TRW Inc 62½c	25⅞	-⅛	$1.72	-	3.9
18½	14⅝	TW Services $5	18⅛	-⅛	10c	-	0.3
29	26¼	Tenneco $5	27½	-⅛	$3.04	-	6.5
31⅛	28	Texaco $6.25	30⅛xd	...	$3.00	-	5.7
25⅛	22	Texas Instr. $1	22⅛xd	+⅛	72c	-	1.9
68⅛	58¾	Time Inc. $1	64¾	-1¼	$1.00	-	0.9
17¼	15⅛	TRINOVA Corp	15⅞xd	-⅛	64c	-	2.3
19	16	USX $1	18⅛	-⅛	$1.40	-	4.5
164p	126p	♦Unilab	164p	+4	-	-	-
26½	22¼	Utd. Technologies	25½	-⅛	$1.60	-	3.7
158p	128p	♦Utilitech Inc	145p	+3	-	-	-
36¼	31½	US West ‡	35¾	-⅛	$3.76	-	-
26⅛	22½	Waste Management $1	25½xd	+⅛	48c	-	1.1
16	13½	Whirlpool $1	15¼	-⅛	$1.10	-	4.2
19⅛	16⅛	Whitman Corp	18⅛xd	-⅛	96c	-	3.1
31¾	28¼	♦Woolworth $3½	28⅛	-⅛	$1.64	-	3.4

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Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

UNIT TRUST NOTES

[illegible]

LONDON SHARE SERVICE

CANADIANS

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
157p	130p	♥ABM Gold Corp ‖	140p		–	–	–
17p	4½p	♥Abbot Energy Corp.	17p		–	–	–
13⅛	902p	♥Amer. Barrick Res.	12½	–½	–	–	–
3¼p	2⅛p	♥Amer. Lightwave ‖	2½p		–	–	–
19¾p	12¼p	♥Arroeno	17p		–	–	–
109p	94p	♥Asiamerica ‖	108p		–	–	–
33¼p	23p	♥Augmitto Explo.	26p	–1	–	–	–
14⅝	12⅞	Bk. Montreal ‖	13⅝	–⅛	$2.12	–	7.5
762p	655p	Bk. Nova Scot. ‖	689p	–25	84c	–	5.9
18¼	17	BCE ‖	17¾	–⅜	$2.44	–	6.6
761p	570p	♥Bow Valley ‖	738p	–7	♦40c	–	2.6
14¼	12⅛	♥Brascan ‖	13⅛	–⅛	88c	–	3.2
228p	184p	♥Breakwater Res.	203p		10c	–	2.4
13⅜	11⅛	Can. Imp Bank ‖	12⅛	–⅛	$1.16	–	4.4
12¼	997p	Can. Pacific ‖	10¾	–⅜	76c	–	3.3
38½	38½	Do. 4pc Deb £100	38½		4%	–	10.4
444p	374p	Central Capital "A" ‖	427p	–6	–	–	–
448p	340p	♥Corona Corp.	427p	–6	–	–	–
360p	228p	♥Cons TVX Min.	354p	–6	–	–	–
48½p	19½p	♥Danbus Mem. Syst. ‖	20½p	–1	–	–	–
633p	524p	♥Derlan Inds. ‖	611p	–5	11.75c	–	0.9
953p	751p	♥Echo Bay Mines	953p	+13	$0.07	–	0.4
572p	370p	♥ECO Corp ‖	434p	+1	–	–	–
16½p	9½p	♥Energex Minerals ‖	16½p		–	–	–
234p	203p	♥Galactic Resources	222p		–	–	–
330p	259p	Gandalf Techs. Inc.	259p	–22	–	–	–
54½p	34p	♥Geodome Res.	36½p	–½	–	–	–
183p	150p	Granges Explo ‖	166p	+10	–	–	–
27½p	6p	♥Gt. Pacific Res.	23p	–½	–	–	–
779p	651p	♥Gulf Canada ‖	738p	–13	52c	–	3.4
12¼	10¼	♥Hawker Sid Can ‖	11¼	–⅛	$1.08	–	4.4
536p	348p	♥Henlys Group	489p	+1	–	–	–
12¼	11¼	♥Hudson's Bay ‖	12¼	+⅛	60c	–	2.3
28⅝	23	♥Imperial Oil ‖	26¼	–⅛	$1.80	–	3.2
18⅞	14⅛	Inco ‖	17⅛	+1	s$0.80	–	2.7
657p	599p	Ieland Nat. Gas $1	629p	–12	60c	–	4.6
150½p	102p	♥Madeleine Mines	134p	–3	–	–	–
193p	163p	♥Muscocho Explo.	193p	+3	–	–	–
126p	85½p	♥Nevada Goldfields	120p	+3	–	–	–
12⅞	10⅞	♥Rio Algom	11⅞		$1.30	–	5.4
19⅝	17⅛	Royal Bk. Can. ‖	19⅛	–⅛	$2.20	–	5.5
40⅞	33⅛	Seagram ‖	39½	–⅞	US$1.40	–	2.1
112p	74½p	♥Sonora Gold Corp ‖	110p	+3	–	–	–
85p	33p	♥Spiral Eng ‖	73½p	+½	–	–	–
109p	73p	♥Tara Pure Tech. Corp ‖	83p	+5	–	–	–
19½	16⅛	Toronto-Dom. Bk. ‖	18⅞	–⅛	$1.12	–	2.9
750p	686p	♥Trans Can Pipe	750p		68c	–	4.4
183p	154p	Varity Corp ‖	164p	+2	B–	–	–

BANKS, HP & LEASING

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								

Hire Purchase, Leasing, etc.

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								

BEERS, WINES & SPIRITS

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								

BUILDING, TIMBER, ROADS

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								

BUILDING, TIMBER, ROADS – Contd

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								

CHEMICALS, PLASTICS

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								

DRAPERY AND STORES

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								

ELECTRICALS

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								

ENGINEERING

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								

ENGINEERING – Contd

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								

FOOD, GROCERIES, ETC

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								

HOTELS AND CATERERS

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								

INDUSTRIALS (Miscel.)

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								

INDUSTRIALS (Miscel.) – Contd

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								

INDUSTRIALS (Miscel.) – Contd

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								

INSURANCES

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								

LEISURE

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								

LONDON SHARE SERVICE

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LEISURE—Contd

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma. Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ø Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ◆ Merger bid or reorganisation in progress
- ♦ Not comparable
- ◆ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

IRISH

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of [illegible] per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Mixed signals for the dollar

THE DOLLAR lost ground in currency markets yesterday after US producer prices in February showed a smaller than expected rise. The index showed an increase of just 0.4 per cent, below market expectations which centred around a rise of at least 0.5 per cent.

While the difference between the actual figure and market expectations was relatively small, most traders had geared their positions towards a higher figure and a possible rise in US interest rates. After the announcement, many investors decided to limit their exposure by selling the dollar.

Earlier in the day the US unit had edged slightly firmer - the extent of the rise being limited by fears of central bank intervention.

Selling later in the day was also motivated by a 0.6 per cent fall in US real earnings in February. The dollar opened at DM1.8755, up from DM1.8750 on Monday, and touched a high of DM1.8770 before sliding on the CPI to a low of DM1.8645. It closed at DM1.8725. Later trading in New York saw a limited recovery to DM1.8760 but there is unlikely to be much of a push on *DM1.88 until after the Easter break.*

Elsewhere, the dollar closed at Y131.20 from Y131.70 and FFr6.3425 compared with FFr6.3475. However, it was higher against the Swiss franc at SFr1.6220 from SFr1.6155. On Bank of England figures, the dollar's exchange rate index fell from 68.3 to 67.9.

The mood of the market is now one of some confusion. The danger of relying on one set of economic figures to formulate a trend is becoming all too obvious. On Friday the dollar was pushed firmer after higher than expected US producer prices in February. But the smaller than expected rise in consumer prices has left the market trying to respond to mixed signals.

Sterling finished towards its best level of the day, helped by the dollar's weaker tone. While US interest rates are less likely to rise, at least of the basis of yesterday's CPI data, investors see little chance of an early reduction in UK rates. For the time being therefore, interest rate differentials in the pound's favour are unlikely to be compromised, and this encouraged renewed sterling investment.

On Bank of England figures, the pound's exchange rate index rose to 96.6, up from 96.2 at the opening and 96.1 on Monday.

Trading activity is now likely to wind down ahead of the Easter weekend. Tokyo markets were closed yesterday for spring equinox while nearly all European markets are shut next Friday and Monday.

Sterling rose to $1.7210 from $1.7105 and DM3.2225 against DM3.2075. It was also firmer against the yen at Y225.75 from Y225.25. Elsewhere, it rose to SFr2.7925 from SFr2.7625 and FFr10.9150 compared with *FFr10.8575.*

The D-Mark failed to make significant headway against the dollar. The West German Bundesbank underlined its desire to hold interest rates steady by announcing an unchanged fixed rate at it latest sale and repurchase tender.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Mar.21	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.6170	+2.73	+0.84	±1.5344
Danish Krone	7.85212	8.12743	+3.51	+1.62	±1.5404
German D-Mark	2.05853	2.08315	+1.20	-0.69	±1.0981
French Franc	6.90403	7.05381	+2.17	+0.28	±1.3674
Dutch Guilder	2.31943	2.35020	+1.33	-0.56	±1.5012
Irish Punt	0.768411	0.779479	+1.44	-0.45	±1.6684
Italian Lira	1483.58	1526.57	+2.90	+1.75	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Mar.21	Latest	Previous Close
£ Spot	1.7210-1.7220	1.7185-1.7195
1 month	0.40-0.47pm	0.36-0.37pm
3 months	1.79-1.76pm	1.01-0.98pm
12 months	3.72-3.65pm	2.60-2.45pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Mar.21	Previous
8.30 am	[illegible]	[illegible]
9.00 am	[illegible]	[illegible]
10.00 am	[illegible]	[illegible]
11.00 am	[illegible]	[illegible]
Noon	[illegible]	[illegible]
1.00 pm	[illegible]	[illegible]
2.00 pm	[illegible]	[illegible]
3.00 pm	[illegible]	[illegible]
4.00 pm	[illegible]	[illegible]

POUND SPOT- FORWARD AGAINST THE POUND

Mar.21	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7135 - 1.7255	1.7205 - 1.7215	0.39-0.36cpm	2.61	0.99-0.94pm	2.24
Canada	2.0460 - 2.0550	2.0505 - 2.0515	0.23-0.12cpm	1.02	0.31-0.14pm	0.44
Netherlands	3.62 - 3.64½	3.63¾ - 3.64¾	2-1⅞cpm	6.39	5-4⅞pm	5.43
Belgium	67.15 - 67.55	67.35 - 67.45	29-26cpm	4.98	79-74pm	4.54
Denmark	12.51¾ - 12.58¾	12.57¾ - 12.58¾	5⅞-5⅛orepm	5.07	14½-13¾pm	4.49
Ireland	1.2005 - 1.2065	1.2045 - 1.2055	0.57-0.52cpm	5.43	1.50-1.40pm	4.81
W. Germany	3.20¾ - 3.22¾	3.22 - 3.22½	1⅞-1¾pfpm	6.75	5-4⅞pm	6.13
Portugal	264.10 - 265.75	264.70 - 265.70	7-30cdis	-0.84	29-118dis	-1.11
Spain	199.80 - 200.85	200.40 - 200.70	8-2cpm	0.39	14-2pm	0.16
Italy	2354 - 2361½	2360½ - 2361½	2-parlirepm	0.51	2-parpm	0.17
Norway	11.66 - 11.70¾	11.69¾ - 11.70¾	1⅝-1¼orepm	1.41	4⅝-3⅞pm	1.32
France	10.86 - 10.92	10.91 - 10.92	4-3¾cpm	4.26	10¾-10pm	3.73
Sweden	10.96½ - 10.99¾	10.98¾ - 10.99¾	1⅝-1¼orepm	1.57	4⅞-3½pm	1.39
Japan	225¾ - 226¾	225¾ - 226¾	1⅞-1½ypm	8.31	4⅝-4½pm	7.97
Austria	22.57 - 22.63	22.60 - 22.63	12⅞-11¾gropm	6.53	35½-33¾pm	6.07
Switzerland	2.76½ - 2.79¾	2.78¾ - 2.79¾	1¾-1⅝cpm	7.25	4⅞-4½pm	6.89

Belgian rate is convertible francs. Financial franc 67.70-67.80. Six-month forward dollar 1.69-1.64cpm 12 months 2.30-2.20cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Mar.21	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7135 - 1.7255	1.7205 - 1.7215	0.39-0.36cpm	2.61	0.99-0.94pm	2.24
Ireland†	1.4245 - 1.4315	1.4270 - 1.4280	0.33-0.38cdis	-2.98	0.92-1.02dis	-2.72
Canada	1.1910 - 1.1950	1.1920 - 1.1930	0.14-0.18cdis	-1.61	0.51-0.57dis	-1.81
Netherlands	2.1050 - 2.1165	2.1125 - 2.1135	0.70-0.67cpm	3.89	1.92-1.88pm	3.60
Belgium	39.05 - 39.30	39.10 - 39.20	8.50-7.00cpm	2.37	24.00-21.00pm	2.30
Denmark	7.28¾ - 7.31¾	7.30½ - 7.31	1.65-1.40orepm	2.51	4.35-3.95orepm	2.27
W. Germany	1.8645 - 1.8770	1.8720 - 1.8730	0.70-0.67cpm	4.61	1.92-1.88pm	4.06
Portugal	154 - 154½	154¼ - 154½	30-50cdis	-3.11	105-155dis	-3.37
Spain	116.10 - 116.75	116.35 - 116.45	25-55cdis	-4.12	100-160dis	-4.46
Italy	1367½ - 1375¾	1371¾ - 1372¾	2.00-2.50liredis	-1.97	6.80-7.30dis	-2.06
Norway	6.78¾ - 6.81½	6.79¾ - 6.80¾	0.55-0.80oredis	-1.19	1.45-1.75dis	-0.94
France	6.31½ - 6.35¾	6.34 - 6.34½	0.90-0.85cpm	1.66	2.40-2.30pm	1.48
Sweden	6.35¾ - 6.39¾	6.38¾ - 6.38¾	0.40-0.55oredis	-0.89	1.20-1.45dis	-0.83
Japan	130.65 - 131.60	131.15 - 131.25	0.64-0.62ypm	5.76	1.92-1.89pm	5.80
Austria	13.14½ - 13.19½	13.15¾ - 13.16¾	4.50-4.10gropm	3.92	13.25-12.00pm	3.83
Switzerland	1.6105 - 1.6245	1.6215 - 1.6225	0.67-0.64cpm	4.86	1.91-1.87pm	4.67

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 39.30-39.40.

CURRENCY RATES

Mar.21	Bank rate %	Special* Drawing Rights	European Currency Unit
[illegible]	[illegible]	[illegible]	[illegible]

*All SDR rates are for Mar.20

CURRENCY MOVEMENTS

Mar.21	Bank of England Index	Morgan* Guaranty Changes %
[illegible]	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) *Rates are for Mar.20.

OTHER CURRENCIES

Mar.21	£	$
[illegible]	[illegible]	[illegible]

*Selling rate

EURO-CURRENCY INTEREST RATES

Mar.21	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	13-12¾	12⅞-12¾	12⅞-12⅞	13-12⅞	13⅛-12⅞	13-12⅞
US Dollar	9⅞-9⅝	10-9⅞	10¼-10⅛	10⅝-10½	10⅞-10⅝	11⅛-11⅛
Can. Dollar	11¾-11⅝	11⅞-11¾	11⅞-11⅞	12⅜-12¼	12⅝-12⅜	13⅛-12⅞
D. Guilder	5¾-5⅝	6⅛-6¼	6⅞-6⅞	6⅞-6¾	7⅛-6⅞	7⅜-7⅛
Sw. Franc	5½-5¼	5⅝-5¼	5⅞-5⅝	5⅞-5¾	6⅛-5⅞	6⅛-6
Deutschmark	5¾-5⅝	5⅞-5⅞	6⅛-6	6¾-6⅝	6⅞-6¾	7⅛-6⅞
Fr. Franc	8⅝-8½	8⅞-8⅞	8⅞-8⅞	9⅛-9⅛	9⅝-9⅛	9⅝-9⅝
Italian Lire	11-9	12¾-11½	12½-12	12⅞-12½	13¼-12¾	13⅝-13¼
B. Fr. (Fin)	7⅞-7⅞	8⅛-7⅞	8⅜-8⅛	8⅞-8⅜	8⅞-8⅞	8⅞-8⅞
B. Fr. (Con.)	8-7¾	8⅛-7¾	8⅛-8	8⅝-8⅜	8⅝-8⅜	8⅞-8⅝
Yen	4⅜-4⅛	4⅝-4½	5-4⅞	4⅞-4⅜	4⅞-4⅞	5⅛-5⅛
D. Krone	8⅞-9	8⅞-8	8⅜-8⅛	8⅞-8⅜	8⅝-8⅞	8⅞-8⅞
Asian $Sing	9⅞-9⅞	10⅛-9⅞	10⅛-10⅛	10⅝-10½	11-10⅞	11⅝-11¼

Long term Eurodollars: two years 11-10⅞ per cent; three years 10⅞-10⅞ per cent; four years 10⅞-10⅞ per cent; five years 10⅞-10⅞ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Mar.21	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.721	3.223	225.8	10.92	2.793	3.638	2361	2.051	67.40
$	0.581	1	1.873	131.2	6.345	1.623	2.114	1372	1.192	39.16
DM	0.310	0.534	1	70.06	3.388	0.867	1.129	732.5	0.636	20.91
YEN	4.429	7.622	14.27	1000.	48.36	12.37	16.11	10456	9.083	298.5
F Fr.	0.916	1.576	2.951	206.8	10.	2.558	3.332	2162	1.878	61.72
S Fr.	0.358	0.616	1.154	80.84	3.910	1	1.303	845.3	0.734	24.13
H Fl.	0.275	0.473	0.886	62.07	3.002	0.768	1	649.0	0.564	18.53
Lira	0.424	0.729	1.365	95.64	4.625	1.183	1.541	1000.	0.869	28.55
C $	0.488	0.839	1.571	110.1	5.324	1.362	1.774	1151	1	32.86
B Fr.	1.484	2.553	4.782	335.0	16.20	4.144	5.398	3503	3.043	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

A boost for sterling contracts

RECENT ECONOMIC news gave a boost to sterling interest rate contracts on Liffe yesterday. The main items of news have been US consumer prices, *UK money supply and bank* lending, and trends in West German interest rates.

Financial markets turned bearish on last Friday's sharp rise in February US producer prices, but the mood improved yesterday when it was announced that consumer prices in the same month rose 0.4 per cent, which was towards the lower end of most *forecasts.*

This confirmed the better tone created on Monday by encouraging UK bank lending figures. A fixed rate securities repurchase agreement tender from the German Bundesbank appeared to be aimed at calming market nerves about higher interest rates, and put together the picture suggested there is now less reason to fear *higher interest rates internationally.*

June three-month sterling deposits rose to 87.12 from 86.86 on Liffe and long gilt futures, for June delivery, rose to 97-25 from 97-18.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume total, Calls 3025 Puts 687. Previous day's open int. Calls 22858 Puts 13594

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume total, Calls 226 Puts 209. Previous day's open int. Calls 1934 Puts 1809

LIFFE FT-SE INDEX FUTURES OPTIONS

Strike Price	Calls-settlements Mar	Calls-settlements Jun	Puts-settlements Mar	Puts-settlements Jun
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume total, Calls 0 Puts 0. Previous day's open int. Calls 0 Puts 0

LIFFE £/$ OPTIONS

Strike Price	Calls-settlements	Puts-settlements
[illegible]	[illegible]	[illegible]

Estimated volume total, Calls 0 Puts 10. Previous day's open int. Calls 40 Puts 1600

LIFFE EUROSOLLAR OPTIONS

Strike Price	Calls-settlements	Puts-settlements
[illegible]	[illegible]	[illegible]

Estimated volume total, Calls 0 Puts 130. Previous day's open int. Calls 2814 Puts 4051

LIFFE SHORT STERLING

Strike Price	Calls-settlements	Puts-settlements
[illegible]	[illegible]	[illegible]

Estimated volume total, Calls 866 Puts 1475. Previous day's open int. Calls 17108 Puts 12899

PHILADELPHIA SE £/$ OPTIONS

Strike Price	Calls	Puts
[illegible]	[illegible]	[illegible]

LONDON SE £/$ OPTIONS

Strike Price	Calls-settlements	Puts-settlements
[illegible]	[illegible]	[illegible]

LONDON (LIFFE)

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CHICAGO

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EUROPEAN OPTIONS EXCHANGE

Series		May 89 Vol	May 89 Last	Aug. 89 Vol	Aug. 89 Last	Nov. 89 Vol	Nov. 89 Last	Stock
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TOTAL VOLUME IN CONTRACTS: 49,861

A=Ask B=Bid C=Call P=Put

MONEY MARKETS

London rates ease

INTEREST RATES eased in London yesterday after a relatively modest rise of 0.4 per cent in the February US Consumer Prices Index. Forecasts for the February CPI had been revised up to 0.5 per cent from 0.4 per cent following the larger than expected climb in US producer prices announced last Friday.

The CPI figure eased fears of tighter US monetary policy and a rise in international interest rates. This resulted in a fall to 13⅛-12⅞ per cent in three-month sterling interbank, from 13⅛-13⅛ per cent.

UK clearing bank base lending rate 13 per cent from November 25

The Bank of England initially forecast a money market credit shortage of £350m in London, but revised this to £200m at noon. Total help of £203m was provided. Before lunch the authorities bought £83m bank bills outright, in band 4 at 12⅞ per cent. In the afternoon £140m bank bills were purchased, in band 1, at 12⅞ per cent.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £211m, with Exchequer transactions absorbing £145m and a rise in the note circulation £65m. These factors outweighed bank balances above target adding £85m to liquidity.

In New York the Federal Reserve did not intervene in the banking system. Federal funds traded comfortably around 9⅞ per cent, and the absence of the central bank in the market was said to indicate adequate reserves.

In Frankfurt call money eased to 5.85 per cent from 5.90 per cent after the West German Bundesbank offered liquidity to the banking system through a fixed rate tender. Dealers said there was little reaction to the news, but there would have been a strong reaction to a variable rate tender. The tender was for 35-day securities repurchase agreements, at a rate of 5.80 per cent. An earlier pact of DM8.2bn expires today.

In Lisbon the Bank of Portugal announced a rise to 14.5 per cent from 13.5 per cent in its discount rate. The increase had been expected, but reversed the overall trend in Portuguese interest rates, which have fallen from a peak of around 30 per cent three years ago.

In Rome the weighted average on the Bank of Italy's reverse securities repurchase tender fell to 12.43 per cent from 12.73 per cent. The maximum rate declined to 12.60 per cent from 12.90 per cent. Some 48.6 per cent of offers at this rate were accepted.

FT LONDON INTERBANK FIXING

(11.00 a.m. Mar.21) 3 months US dollars		6 months US Dollars	
bid 10½	offer 10⅝	bid [illegible]	offer [illegible]

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK Treasury Bills and Bonds

[illegible]	[illegible]	[illegible]	[illegible]

Mar.21	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brussels	7.25	8⅛-8¼	-	8⅛-8⅜	-	-
Dublin	7⅞-7⅞	7⅞-8	7⅞-8⅛	8⅛-8⅜	8½-8⅞	-

LONDON MONEY RATES

Mar.21	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	12⅞	12⅞	12⅞	13⅛	13⅛	13⅛
Interbank Bid	11	12¾	12⅞	12⅞	13	12⅞
Sterling CDs	-	-	12⅞	13	13	12¾
Local Authority Deps.	12⅞	12⅞	12⅞	12⅞	12⅞	12⅞
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	12⅞	12¾	12⅞	13⅛	-	-
Company Deposits	-	-	12⅞	13⅛	13	12⅞
Finance House Deposits	-	-	12⅞	12⅞	13	13
Treasury Bills (Buy)	-	-	12⅞	12⅞	-	-
Bank Bills (Buy)	-	-	12⅞	12⅞	12⅞	-
Fine Trade Bills (Buy)	-	-	13⅛	12⅞	12⅞	-
Dollar CDs	-	-	10.25	10.30	10.95	11.25
SDR Linked Dep Offer	-	-	8½	8¾	9	9⅛
SDR Linked Dep Bid	-	-	8¼	8½	8¾	8⅞
ECU Linked Dep Offer	-	-	8½	8⅞	9⅛	9⅜
ECU Linked Dep Bid	-	-	8⅜	8¾	8⅞	9¼

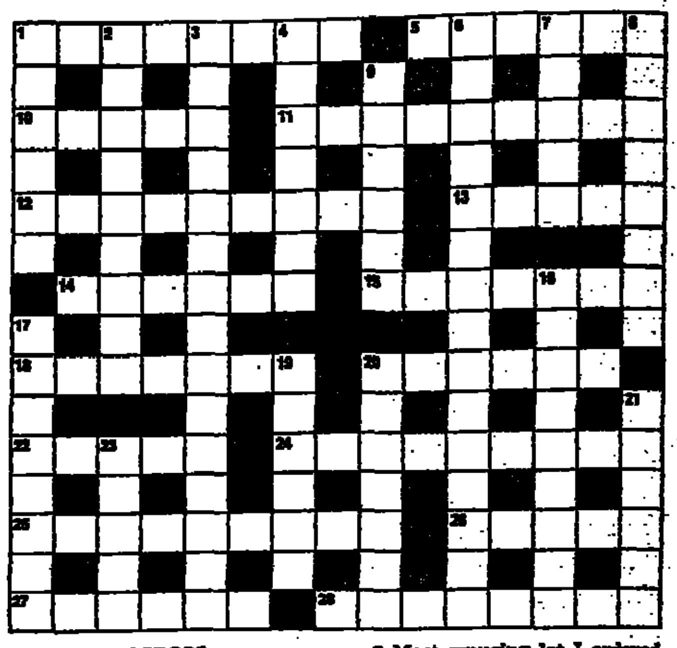
Treasury Bills (sell); one-month 12⅞ per cent; three months 12⅞ per cent; Bank Bills (sell): one-month 12⅞ per cent; three months 12⅞ per cent; Treasury Bills; Average tender rate of discount 12.4000 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day February 28, 1989. Agreed rates for period March 26,1989 to April 25, 1989, Scheme I: 13.90 p.c., Schemes II & III: 14.29 p.c. Reference rate for period February 1 to February 28, 1989, Scheme IV&V: 13.041 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 13½ from March 1, 1989: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 9½ per cent; one-three months 11 per cent; three-six months 11 per cent; six-nine months 11 per cent; nine-twelve months 11 per cent; Under £100,000 9½ per cent from December 1,1988, Deposits withdrawn for cash 5 per cent.

BASE LENDING RATES

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CROSSWORD

No.6,890 Set by TANTALUS



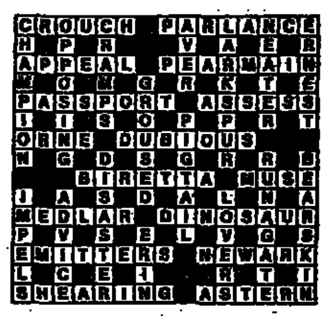
ACROSS

1 If back with marines at headland, show solidity (8)
5 Young animal captures her innocent child (6)
10 Hate seeing raised platform without top (5)
11 Let a church have discount (9)
12 Leading actor has gem — could be a ruby (9)
13 Nymph in inferno ready to be a martyr (5)
14 Wife with a heartless lord appears coarse (5)
15 Step uncertainly before a German sculptor (7)
18 Ponder with a variety of oysters (7)
20 US partnership makes accountant laugh loudly (6)
22 I leave stormy region to find indigenous African (5)
24 No company in this group? (5)
25 Don't talk to me about naval — (Churchill) (9)
26 Banishment once to French island (5)
27 Wheel gold back to gallery (6)
28 Dairy cat played with female figure (8)

DOWN

1 Loud argument on way to hot atmosphere (6)
2 Being drunk, I run into a downfall (9)
3 Most amusing lot I ordered from collector (15)
4 Somehow a rod is beginning to produce fish (7)
6 What time is it to ask about a foe? (3,4,3,5)
7 As it's the limit, park official stops short (5)
8 Bring forth mixed gin showing refinement (8)
9 For example, girl rises to declare (6)
16 Assembly come in to see first political adviser (9)
17 Soaks and nips up to meet single woman (8)
19 To trap points to hard work (6)
20 Battle officer on sprint with sodium (7)
21 Protect champion (6)
23 Gift from former American president (5)

Solution to Puzzle No.6,889



JOTTER PAD

WORLD STOCK MARKETS

CANADA

TORONTO
2pm prices March 21

‡ – No voting rights or restricted voting rights.

INDICES

NEW YORK DOW JONES

	Mar 20	Mar 17	Mar 16	Mar 15	1989 High	1989 Low	Since compilation High	Since compilation Low
♦Industrials	2262.50	2292.14	2340.71	2320.54	2347.14 (7/2)	2144.64 (3/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	87.67	87.84	88.14	88.04	89.62 (8/2)	87.67 (20/3)	–	–
Transport	1026.20	1039.13	1065.82	1061.29	1087.97 (7/2)	959.95 (3/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	182.08	182.02	184.98	183.38	191.15 (24/1)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2286.25 (2307.68) Low 2249.46 (2267.86)

STANDARD AND POOR'S	Mar 20	Mar 17	Mar 16	Mar 15	1989 High	1989 Low	Since compilation High	Since compilation Low
Composite‡	289.92	292.70	299.44	296.67	299.63 (7/2)	275.31 (3/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	334.17	337.78	346.01	342.97	346.41 (7/2)	318.66 (3/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	27.01	27.19	27.49	27.03	27.49 (16/3)	24.30 (3/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	163.13	164.66	168.10	166.67	168.10 (16/3)	154.98 (3/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	325.49	328.36	332.52	331.79	332.52 (16/3)	305.24 (3/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	398.50	402.19	409.51	406.98	409.51 (16/3)	378.56 (3/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Mar 17	Mar 10	Mar 3	year ago (approx.)
Dow Industrial Div. Yield	3.70	3.70	3.70	3.35
	Mar 15	Mar 8	Mar 1	year ago (approx.)
S & P Industrial div. yield	3.13	3.16	3.23	2.94
S & P Indl. P/E ratio	13.17	13.04	12.68	15.35

TRADING ACTIVITY † Volume Millions

	Mar 20	Mar 17	Mar 16
New York	151.558	242.900	196.040
Amex	10.022	14.507	14.306
OTC	119.842	159.349	150.480

NEW YORK	Mar 20	Mar 17	Mar 16
Issues Traded	1,932	1,947	1,940
Rises	353	214	921
Falls	1,133	1,424	510
Unchanged	446	309	509
New Highs	14	22	127
New Lows	41	31	17

CANADA
TORONTO

	Mar 20	Mar 17	Mar 16	Mar 15	1989 High	1989 Low
Metals & Minerals	3323.9	3400.4	3428.4	3394.1	3564.9 (6/2)	3207.5 (3/1)
Composite	3576.7	3614.4	3651.7	3622.2	3696.1 (8/2)	3350.5 (4/1)
MONTREAL Portfolio	1776.58	1798.99	1821.72	1803.20	1850.44 (8/2)	1677.48 (3/1)

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
IBM	3,978,600	109½	– 3	AT&T	1,688,200	31⅞	– ⅛
Emhart	3,326,500	40⅞	– ⅛	TW Services	1,591,400	31	– ⅛
Reebok	2,622,300	14	+ 2⅛	Storage Tech	1,547,500	2⅞	....
Citicorp	1,711,808	28	– ⅛	Sears Roebuck	1,403,600	42½	– ½
Portland	1,644,200	21⅛	.....	Ford Motor	1,349,100	49⅛	– ⅛

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Mar. 21	Mar. 20	Mar. 17	Mar. 16	1989 High	1989 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1483.6	1484.4	1496.3	1497.6	1551.7 (31/1)	1448.1 (17/2)
All Mining (1/1/80)	687.5	686.9	691.6	695.7	727.0 (26/1)	654.6 (16/2)
AUSTRIA						
Credit Aktien (30/12/84)	272.63	269.32	265.92	262.12	272.63 (21/3)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	5650.62	5669.38	5734.11	5730.36	5834.01 (10/2)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	285.67	286.49	288.00	286.90	291.83 (10/2)	275.49 (27/2)
FINLAND						
Unitas General (1975)	781.4	775.4	791.7	791.0	791.7 (14/3)	723.3 (4/1)
FRANCE						
CAC General (31/12/82)	436.2	436.1	446.5	444.0	457.3 (6/2)	417.9 (4/1)
Ind. Tendance (30/12/88)	102.9	101.7	103.6	104.0	108.1 (3/2)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	548.54	547.50	557.52	557.02	569.27 (8/2)	535.78 (27/2)
Commerzbank (1/12/53)	1631.8	1628.5	1660.2	1657.4	1705.6 (5/1)	1595.7 (27/2)
DAX (30/12/87)	1303.28	1303.36	1322.69	1323.64	1371.10 (5/1)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	3056.43	3046.73	3136.94	3150.85	3209.96 (9/2)	2706.49 (3/1)
ITALY						
Banca Com. Ital. (1972)	591.85	592.29	598.73	596.18	615.89 (17/1)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	(c)	31654.80	32021.01	32098.2	32452.49 (23/2)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	(c)	2393.04	2419.59	2432.69	2490.07 (8/2)	2366.91 (6/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	226.4	224.9	225.5	229.5	229.5 (16/3)	208.3 (3/1)
CBS All Shr (End 1983)	181.0	179.9	180.4	183.6	183.6 (16/3)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	585.48	575.78	586.16	589.65	590.14 (7/3)	467.17 (2/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1175.46	1168.56	1187.53	1185.79	1187.53 (17/3)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1627.06	1632.0	1594.0	1597.0	1634.0 (20/3)	1291.0 (15/2)
JSE Industrial (28/9/78)	2436.06	2455.0	2430.0	2366.0	2455.0 (20/3)	1961.0 (3/1)
SPAIN						
Madrid SE (30/12/85)	277.26	278.44	279.10	279.70	283.93 (17/1)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	3811.6	3834.9	3883.3	3854.8	3889.9 (14/3)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	650.1	649.2	654.2	654.7	654.7 (16/3)	613.1 (3/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	493.6	500.2	507.6	519.0 (17/2)	494.6 (6/1)

§ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia, All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

3pm prices March 21

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
[illegible]	21¾	AAR	.44	1.6	18	106	27½	26¾	27¼	-⅛
10¼	8¾	ACM n	1.01	12.		277	8¾	8½	8¾	
11⅞	10¼	ACMIn	1.26a	12.		569	10⅝	10½	10½	
10¼	8½	ACM M	n1.01	12.		238	8¾	8⅝	8⅝	-⅛
11⅞	10¼	ACM Sc	1.26	12.		730	10⅝	10½	10½	-⅛
10⅝	8½	ACMSp	n.85e	9.7		235	8⅞	8¾	8¾	-⅛
6¼	2¾	AMCA	.12e	3.2		15	3⅞	3¾	3¾	-⅛
6⅛	3⅞	AM Intl				669	5⅞	5½	5⅝	-⅛
23⅛	18⅛	AM Int pf	2	8.8		52	22⅞	22¾	22¾	-⅛
62¼	38	AMR			7	2376	58⅞	58¼	58¾	+½
26¼	25	ANR pf	2.67	11.		42	25¼	25¼	25¼	
9½	4⅞	ARX				100	5¼	4⅞	4⅞	-⅛
47⅛	35¼	ASA	3a	7.2		232	42	41¾	41⅞	
20⅛	14⅛	AVX	.24	1.4	8	320	16⅞	16¾	16¾	+⅛
53¾	42⅞	AbtLab	1.40	2.7	16	3277	52¼	51⅞	52⅛	+½
20⅞	15⅞	Abitibi g	1			11	16½	16⅜	16⅜	
10⅞	7½	AcmeC	.40	4.1		107	9⅞	9⅝	9¾	
8¼	5⅞	AcmeE	.32	4.4	25	22	7¼	7⅛	7¼	+⅛
30¼	20¼	Acuson			29	175	27½	27⅛	27½	+⅛
16⅞	14½	AdaEx	1.82e	13.		160	14⅝	14½	14½	-⅛
16⅞	7⅛	AMD			9	1720	8⅝	8¼	8⅜	
43½	28¾	AMD pf	3	9.4		5	31¾	31¾	31¾	-⅛
8⅝	6½	Adobe				55	7¼	7⅛	7⅛	-⅛
18½	16½	Adob pf	1.84	11.		15	17⅛	17⅛	17⅛	+⅛
21⅝	20	Adob pf	2.40	12.		2	20¾	20¾	20¾	+⅛
9¾	6⅞	Advest	.12	1.6	16	134	7⅞	7¾	7⅞	+⅛
52½	38½	AetnLf	2.76	5.5	9	1646	50¼	49⅞	50¼	+¼
44½	24	AflPb s	.22	.5		835	41	40½	40⅝	-⅜
18¾	13¼	Ahmans	.88	5.2	8	465	17	16¾	16⅞	+⅛
4⅛	2¼	Aileen			19	26	3⅞	3¾	3⅞	+⅛
50¾	37¾	AirPrd	1.20	2.8	11	984	42¾	41⅞	42⅛	
28½	15½	AirbFrt	.60	2.2	27	457	27⅞	26¾	27	+⅜
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 53

هكذا اصل الأصل

NYSE COMPOSITE PRICES

Continued from previous Page

OVER-THE-COUNTER

Nasdaq national market, 3pm prices March 21

AMEX COMPOSITE PRICES

3pm prices March 21

FINANCIAL TIMES
Wednesday March 22 1989

AMERICA

Dow edges upwards after consumer price statistics

Wall Street

A LOWER figure for the consumer price index (CPI) than had been expected gave Wall Street a badly needed respite after the past two days of dramatic losses, *writes Anatole Kaletsky in New York.*

February's 0.4 per cent increase in consumer prices was at the lower end of the forecasts which Wall Street economists had revised drastically upwards after the shocking producer price announcement last Friday. However, with the underlying inflation rate now apparently running at between 5 and 6 per cent, the figures were not good enough to spark off a substantial rally.

The Dow Jones Industrial Average rose by about 10 points shortly after the opening bell, but then settled into a narrow trading range. By 2 pm the Dow was only 5 points up at 2,267.5. Volume was moderately heavy, with 90m shares changing hands by lunchtime on the New York Stock Exchange and advancing shares outnumbered declining issues by about two to one.

The stock market's lacklustre performance reflected the continuing anxiety among bond investors about inflation and possible monetary tightening.

The Federal Reserve Board refrained from giving any signals of its intentions in the money market and, while the Federal funds rate remained virtually motionless at 9⅞ to 9¾, some analysts continued to predict an increase in interest rates next week. The Fed's policy-making Federal Open Market Committee meets next Tuesday and some traders said they expected a further ¼ point increase in Fed Funds to be agreed at that meeting.

Reflecting this anxiety, the bond market showed only small gains yesterday morning, with the Treasury's benchmark long bond rising only ¼ to 95¾, a price at which it yielded 9.30 per cent. Bonds at the short end of the maturity spectrum enjoyed almost no recovery, with price gains ranging from 1/32 to 1/16.

The foreign exchanges initially marked the dollar down in response to the CPI figures, but demand for the dollar increased later in the morning as it became apparent that US interest rates had not reversed their upward course. By lunchtime, the dollar stood well above its closing levels on Monday, especially against the D-Mark at DM1.8755. The US currency was almost unchanged against the yen at Y131.40

Much of the day's equity trading was concentrated on issues that had been severely buffeted in the rout of the previous two days. IBM was again one of the most active issues, recovering $⅝ to $110¼ after the big losses it took last week. Texas Air rebounded $½ to $11⅞ on short-covering following its 10 per cent plunge on Monday.

Trading was also heavy in telecommunications issues as investors continued to react to the telephone rating regulations announced last week by the Federal Communications Commission. MCI, which gained $⅛ to $34⅛, was the busiest stock on the over-the-counter market, while AT&T gave up $⅜ of its recent large gains to $31⅞.

A rumour that Mr Robert Bass, the Texas billionaire and a corporate raider, was planning a counterbid for Time Inc sent that stock soaring by $8¼ to $119½, although the volume of trading was relatively small at around 750,000 shares. Warner, the suitor with which Time has already signed a merger agreement, rose $1 to $48⅝.

One of the day's biggest losers was Federal Express, which fell $1¼ to $45¾ after announcing a big decline in profits on Monday night.

Dow Chemical fell $1¼ to $90⅝ in response to a newspaper report suggesting that one of its cement additives had been responsible for widespread structural damage in US buildings.

Financial News Network rose $1⅛ to $10⅛ in over-the-counter trading on unconfirmed reports of a possible bid from Turner Broadcasting.

Canada

INVESTORS stayed on the sidelines in midday trading in Toronto, and share prices retreated from an early gain of 18 points. The initial rally had followed the US February consumer price index news, which suggested inflation could be restrained.

The composite index rose 3.2 to 3,579.9, but declining issues led advancing ones by 257 to 204 on volume of 5.9m shares.

Dofasco gained C$⅛ to C$28⅜ after Mr Paul Phoenix, president, said he expected higher earnings this year.

Tokyo market hails blueprint of the future

Bold development plans are boosting construction stocks, writes Michiyo Nakamoto

NOW THAT Japan is one of the richest countries in the world, it is planning to spend some of its enormous wealth on itself in a grand way.

Encouraged by its sizeable tax surplus and faced with outside pressure to stimulate the domestic economy, the Government has drawn an ambitious blueprint for rebuilding the country in the image of the 21st century, with highways and high-speed trains criss-crossing the nation and a whole new infrastructural network deep underground.

Characteristically, the equity market has been quick to embrace this futuristic vision of Japan in the new age. Plans and dreams alike have been woven into a fantastic theme that has sparked a rally around stocks that are widely expected to be the star performers of the year.

Tokyo was closed yesterday for the spring equinox.

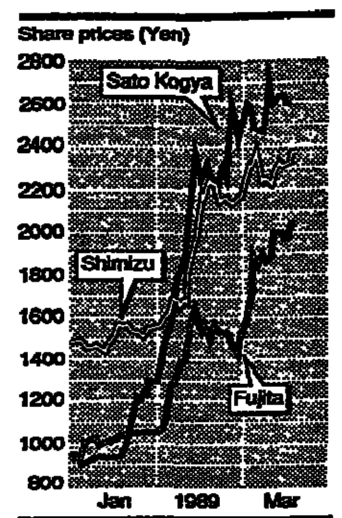
Among the countless development and redevelopment projects planned all over the country, the leading ones, or so-called "big projects", which have been the focus of attention include:

- Highways stretching a total of 11,520 km to be built by the beginning of the 21st century.
- The Trans-Tokyo Bay Highway to connect Kawasaki and Kisarazu on the other side of the bay in Chiba. The plan for the highway will take part of the route underwater to allow shipping to pass overhead.
- Three new bullet train lines, with construction work on the first line to be started in the coming fiscal year beginning April 1.
- *Lines* for linear motor cars (trains) to run at a speed of 500 km per hour and reduce the travel time between Tokyo and Osaka to one hour from three hours now. Three sites have already been selected as candidates for a test line.
- Development of the deep underground, where water pipes, communications networks, subway lines and other facilities could be located.
- Redevelopment of the Kansai area in and around Osaka and, in particular, the building of the Kansai International Airport. The airport is planned to be opened in 1993 as Japan's first round-the-clock international airport.

The theme of national land development is given concrete support by the Fourth Comprehensive National Development Plan, which calls for spending an estimated Y1,000 trillion (million million) ($7.5 trillion) before the year 2000. Nevertheless, it was the Government's decision earlier this year to take significant steps to realise several projects that gave it a market-leading impetus.

The publication of a popular science magazine called Newton, devoted to images of Japan in the next century, also helped stimulate interest.

A large number of companies have seen their share prices surge on waves of excitement over the great earnings potential offered by these long-term, government-led projects. The construction sector, in particular, has seen spectacular gains since the beginning of the year.



Among construction companies, interest has focused on those with expertise in tunnel-building, as the new highways and train lines run through mountainous areas and are expected to require difficult tunnelling work. Development of the underground and the Trans-Tokyo Bay Highway also require high-technology digging expertise.

All of the "big five" construction groups – Taisei, Shimizu, Ohbayashi, Kumagai and Kajima – have posted strong gains on the strength of their high-level underground development technology.

Taisei has seen its share price surge from Y1,280 at the beginning of this year to Y1,890 on Monday. Shimizu has risen from Y1,480 to Y2,360 and Ohbayashi has increased from Y1,160 to Y1,800. Kumagai has advanced from Y1,200 to Y1,880 and Kajima has moved from Y1,850 to Y2,510.

Investors have also been enthusiastic about some smaller companies with special strengths, such as Sato Kogyo, a medium-sized construction company noted for its tunnel-building expertise. It has been a market favourite for weeks and has seen its share price nearly triple from Y940 in January to Y2,590 at the close on Monday.

Another medium-sized construction company that has staged a spectacular performance is Fujita Corp. Its share price has more than doubled from Y851 to Y2,020 in a little less than three months. Although Fujita does have experience in underground development, its rise also reflects investors' preference for issues whose prices move rapidly.

The smaller companies' popularity has been due in part to the desire to make quick profits at a time of uncertainty, with interest rate rises threatening from abroad and political turmoil becoming a possibility at home. Contracts for projects will also have a bigger impact on smaller companies' profits than on those of the larger general contractors.

Plans to build linear motor cars, or high-speed trains running on superconductivity, are still in their experimental stages, so interest has been concentrated in companies involved in developing related materials or those with land in possible areas for experimental lines.

Among them, Daido Steel, which has been experimenting with materials that could be used for linear motor car lines, has virtually doubled from Y770 to Y1,530 this year. Japan Steel Works has gained from speculation that an experimental linear motor car line would pass near its plant in western Tokyo. It had risen from Y690 at the beginning of the year to Y1,110 at the close on Monday.

Mr Hirokazu Nihei, senior analyst at Daiwa Securities, says that the market's attention to development projects tends to peak as expectations about their realisation rise. Once a project gets going, interest starts to level off. In this respect, the "big projects" are all on a rising momentum that many analysts expect to last for a large part of the year.

In many ways, the enthusiasm behind the national redevelopment theme reflects a tendency for Japanese investors to focus on the economic trends of the time, says Mr Takayuki Murakami, chief analyst at Daiwa Securities. "Basically the market is buying government policy," he says.

The companies being bought on the theme will not see any boost in profits from the projects for a while. The idea is, however, that eventually the profits are bound to come.

SOUTH AFRICA

GOLD issues were mixed in Johannesburg in quiet trading. De Beers rose R2 to R60.25 on news that it was raising rough diamond prices 15.5 per cent.

ASIA PACIFIC

Singapore and Hong Kong overcome fears

THERE were early jitters over the impending release of the US Consumer Price Index, due after Asia Pacific markets had closed, but Singapore and Hong Kong managed to end firmer.

SINGAPORE changed tack after a weak opening to end higher, as demand for property stocks and blue chips emerged in afternoon trading.

The Straits Times industrial index rose 6.39 to 1,175.46, in spite of some nervousness about the impending release of the US consumer price data due later in New York.

Turnover rose to 79.5m shares from 70.2m on Monday.

DBS Land, reporting a 27 per cent rise in annual profits, gave up 1 cent to S$1.67 with 3.5m shares traded.

HONG KONG was also able to shrug off early weakness and the Hang Seng index rose cautiously to 3,056.43, up 9.70. Volumes fell substantially from Monday's HK$2.2bn to HK$1.4bn.

Hongkong Land was the day's most active stock, losing 10 cents to HK$10.90. Harbour Centre, controlled by Wharf, rose HK$1.50, or 14.7 per cent, to HK$11.70, leading to speculation of a possible takeover. The company declined to comment.

AUSTRALIA had a dull day, marked by a retreat into gold as inflation worries came to the fore. The session was also constrained by anxieties over the US CPI figures.

In golds, Sons of Gwalia rose 20 cents to A$5.80 and Placer Pacific put on 10 cents to A$2.53. Industrial stock BHP rose 10 cents to A$7.60 after its healthy nine-month production report.

Chase Corp added 7 cents to 35 cents after recent sharp falls, on speculation of possible equity injections involving Trafalgar House of the UK and Adsteam. The latter was steady at A$6.60. Metana was badly hit by news of its large interim loss, plunging 55 cents to A$3.90.

The day closed with the All Ordinaries index off just 0.8 at 1,483.6, while turnover rose to 69m shares worth A$121.8m.

TAIWAN recovered some of the ground lost the previous day, with the weighted index rising 85.12 to 7,172.95, after its 259-point slump on Monday.

EUROPE

Paris ends account on a firm note

THE WAIT for US consumer price figures for February held most bourses in thrall, but late recoveries were widespread, *writes Our Markets Staff.*

PARIS put in a firm finish to the March account, rising by about 1.3 per cent in relatively thin volumes. Features were few, but the better-than-expected news from the US helped to turn around an early loss.

The CAC 40 index rose 19.50 to 1,622.87 and the OMF 50 index added 6.27 to 458.12. The monthly account, characterised largely by consolidation, ended just 0.68 per cent lower than the previous account.

Paper maker Aussedat-Rey was suspended at the request of the securities supervisory board after extremely active trading on Monday on the stock's requotation. Nearly half of the company's capital changed hands on Monday with the stock rising to match the bid price of FFr675 being offered by International Paper of the US. It was unchanged yesterday.

Valeo, the car components maker, jumped FFr30, or 4.4 per cent, to FFr710 after forecasting 1988 profits more than the double the previous year's. Peugeot rose FFr48 to FFr1,714, with its Citroen unit unveiling its new top range XM model, a competitor to the BMW 5 series and the Audi 100.

FRANKFURT was cramped by the wait for the US consumer price figures and share movements were restricted.

Another signal of steady interest rates – in the form of a fixed 5.80 per cent rate for the Bundesbank's latest securities repurchase tender – provided some cheer.

But lingering concern that US inflationary pressures would lead to another round of global interest rate rises kept investors subdued. Once the CPI figures came out better than expected, there were some after market gains in blue chips such as Siemens, up as high as DM528 after closing just 30 pfg better at DM524.80.

The FAZ index rose 1.04 at midsession to 548.54 but the DAX index finished 0.08 easier at 1,303.28. Volume edged up from Monday to DM2.38bn.

Steel and engineering stocks were active, with Hoesch up DM7.50 at DM243. Metallgesellschaft ended DM4 lower at DM399 after announcing plans to increase its authorised nominal capital because of continued expansion. Mannesmann, which is part of a consortium that has won a DM1.7bn contract to upgrade a steel plant in India, was DM3.50 better at DM225.50.

Engineer Linde fell DM20 to DM765 as investors sold out their old positions in order to buy in at lower levels for the planned one-for-five rights issue at DM500, analysts said.

AMSTERDAM had a moderately active day, ending firmer after the US consumer price figures proved lower than expected. The CBS tendency index was up 0.8 at 170 in volume of Fl 774m, but shares generally closed slightly off their highs as Wall Street lost some of its early gains.

Royal Dutch was buoyed further by oil prices, rising 90 cents to Fl 131.50. Shipping and transport stocks benefited from better fundamentals in the sector and from speculative interest, with Van Ommeren Ceteco up Fl 1 at Fl 43.20 after reaching Fl 44 on expectations of strong 1988 results, and Nedlloyd gaining Fl 8.50 to Fl 323.

On the losing side, office furniture maker Ahrend fell 6 to Fl 236 as investors took the view that it was well protected – especially after last week's preference share issue – against a full takeover by Bührmann Tetterode, which has bought 30 per cent.

ZURICH opened weakly but turned firmer as the day progressed with turnover surprisingly active given the general anxiety about Wall Street. The Crédit Suisse index added 3.4 to 556.3.

Hoffmann-La Roche baby shares rose SFr335, or 2.3 per cent, to SFr14,500 leading to renewed rumours about a share split at the chemicals company. The group has delayed the release of its results until late April, spurring speculation as to the reason why.

Nestlé registered stock rose SFr20 to SFr8,560 – the food group is due to report results today and expectations are high – but its bearers fell SFr10 to SFr7,170.

MADRID was knocked by the negative tone on Wall Street overnight with volumes reduced by the absence of many local operators for the Easter holidays. The general index fell 1.18 to 277.26.

Cement stock Asland added 4 percentage points to 1,204 per cent of nominal market value as the bolsa learned of its plans to hive off the cement factories into a separate company, with Asland itself becoming a holding group. The stock has risen sharply in recent weeks on speculation about stake building, and the restructuring announced yesterday was not necessarily the whole story, said one analyst.

MILAN recovered some of its early losses to end slightly lower in subdued volume, estimated to be a little better than Monday's L107bn. The Comit index was off 0.44 at 591.85.

Foreign interest was reported in Generali, which rose L350 to L42,450 amid rumours of a scrip issue and pressure from the possible exercise of a large call option at L42,000.

Banks picked up, and BNA continued climbing on speculation of a stake build-up by Credito Italiano, adding L340 to L14,305. Its parent Bonifiche Siele gained L1,850 to L45,000.

Cir, the De Benedetti group holding company which announced higher 1988 consolidated profits, fell L70 to L5,410.

OSLO continued its climb, as rising oil prices and positive signs for the economy stimulated demand. The all share index rose 6.14 to 431.62.

STOCKHOLM closed too early to benefit from the US inflation news and shares lost ground in turnover worth SKr236m. The Affärsvärlden index lost 8.3 to 1,108.3, taking its fall so far this week to 1.8 per cent.

Saab free B shares fell SKr5 to SKr237. A newspaper report said that the growing rift between Scandanavia and the US over airline rights could jeopardise Saab's winning a large aircraft order.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY MARCH 20 1989					FRIDAY MARCH 17 1989			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1988/89 High	1988/89 Low	Year ago (approx)
Australia (89)	138.13	-0.1	119.73	111.49	4.92	138.33	119.69	112.31	157.12	91.16	118.68
Austria (18)	105.46	+0.7	91.40	102.92	2.45	104.74	90.63	101.96	105.46	83.72	91.75
Belgium (63)	129.57	-1.2	112.31	126.06	4.11	131.14	113.47	127.59	139.89	99.14	134.86
Canada (125)	133.60	-1.0	115.80	115.61	3.31	134.91	116.73	116.94	137.27	107.06	121.28
Denmark (39)	167.77	-0.8	145.42	166.86	1.89	169.09	146.31	168.17	180.38	111.42	118.38
Finland (26)	141.69	-1.1	122.81	126.67	1.45	143.27	123.96	129.29	147.07	106.78	122.93
France (130)	113.51	-0.5	98.39	113.02	2.89	114.11	98.73	113.71	119.98	72.77	84.00
West Germany (102)	82.55	-1.6	71.55	80.46	2.35	83.85	72.55	81.78	90.40	67.78	80.44
Hong Kong (44)	128.62	-2.7	111.48	128.71	3.80	132.18	114.37	132.32	133.77	84.90	101.77
Ireland (17)	142.28	-1.7	123.32	140.88	3.61	144.77	125.26	142.80	146.46	104.60	122.57
Italy (98)	79.83	-0.9	69.19	81.97	2.47	80.52	69.67	82.81	86.88	62.99	81.69
Japan (456)	183.32	-1.3	158.89	152.61	0.49	185.73	160.70	154.50	200.11	133.61	167.57
Malaysia (36)	159.09	-1.1	137.89	168.74	2.68	160.79	139.12	170.54	160.79	107.83	121.63
Mexico (13)	166.67	+0.6	144.46	433.61	1.18	165.75	143.42	430.41	182.24	90.07	145.71
Netherland (39)	115.16	-0.2	99.82	111.22	4.54	115.44	99.89	111.49	117.71	95.23	109.73
New Zealand (24)	69.12	-2.1	59.91	59.71	6.45	70.59	61.08	60.95	84.05	63.32	79.13
Norway (26)	167.71	-1.6	145.37	155.02	1.86	170.37	147.41	157.48	174.29	98.55	121.60
Singapore (26)	145.36	-1.5	125.99	129.92	2.09	147.62	127.73	131.97	147.62	97.32	114.93
South Africa (60)	141.89	+1.1	122.98	126.63	3.98	140.32	121.41	125.20	141.89	98.26	134.87
Spain (42)	145.91	-0.4	126.47	129.16	3.73	146.45	126.72	129.53	164.47	130.73	147.18
Sweden (35)	156.36	-0.8	135.53	148.15	2.29	157.69	136.44	149.34	158.38	96.92	118.87
Switzerland (57)	74.95	-1.0	64.96	75.07	2.32	75.69	65.49	75.86	86.75	74.13	85.18
United Kingdom (314)	146.75	-1.1	127.20	127.19	4.36	148.40	128.40	128.40	153.33	120.66	139.21
USA (568)	117.65	-1.3	101.97	117.65	3.69	119.18	103.12	119.18	121.90	99.19	109.53
Europe (1006)	117.13	-1.0	101.52	108.41	3.57	118.30	102.36	109.44	120.88	97.01	110.21
Nordic (126)	147.58	-0.9	127.92	145.35	2.02	148.95	128.88	146.82	149.38	95.22	110.54
Pacific Basin (675)	179.11	-1.3	155.25	149.64	0.71	181.46	157.00	151.52	194.72	130.81	163.06
Euro-Pacific (1681)	154.34	-1.2	133.77	133.18	1.59	156.21	135.16	134.73	164.22	120.36	141.94
North America (693)	118.50	-1.3	102.71	117.56	3.67	120.02	103.85	119.08	122.71	99.78	110.15
Europe Ex. UK (692)	98.84	-0.9	85.67	96.76	2.91	99.73	86.29	97.68	103.11	80.28	92.21
Pacific Ex. Japan (219)	128.69	-1.2	111.54	112.27	4.38	130.27	112.71	114.02	137.65	87.51	108.75
World Ex. US (1879)	153.50	-1.2	133.05	132.66	1.66	155.32	134.39	134.17	162.77	120.26	141.16
World Ex. UK (2133)	138.93	-1.2	120.41	127.60	2.07	140.64	121.68	129.15	146.04	111.77	127.94
World Ex. So. Af. (2387)	139.60	-1.2	121.00	127.57	2.27	141.32	122.28	129.10	146.65	113.26	128.89
World Ex. Japan (1991)	118.69	-1.1	102.87	114.57	3.67	120.05	103.87	115.89	122.37	100.00	110.40
The World Index (2447)	139.61	-1.2	121.01	127.55	2.28	141.32	122.27	129.07	146.51	113.37	128.93

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Latest prices were unavailable for this edition.

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